

**Transformation of ownership relationship and comparative analysis
of the Russian regions**

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Introduction

The main objectives of the present research are the identification of main regularities of the emergence of a new property rights system within privatization process in the conditions of transitional economy in Russia and its single regions (on the basis of evaluation of privatization models of the '90s), the identification of the crucial challenges of theoretic and applied nature from the perspective of government regulation, and the elaboration of the respective applied recommendations for improvement an economic policy at the federal an regional level.

The empirical evaluation is focused on the problems of a comparative research into the dynamics of the non-government sector in the Russian regions and finding out the correlation between the level of its development and some indices of economic and political development in the regions. It should be noted that Chapters 4-7 of the present research should be considered together, because to avoid duplication, the authors do not repeat the findings of the qualitative evaluation and allow themselves only a brief interpretation of empirical output (wherever possible), implying a detailed analysis presented in other Chapters. All the data bases and the majority of calculations have been put in Annexes for chapters 5-6 that are available in Russian version of the publication, at the IET web-site (www.iet.ru) and compact-discs.

During the research period in question, we studied into the following problems:

- a brief evaluation of theoretical approaches and general problems of implementation of property rights;
- a review of the Russian privatization model and preliminary recommendations on economic policy;
- calculations in the frame of the cluster evaluation of Russian regions by the level of the non- government sector's prevalence;
- regression evaluation of the correlation between the level of development of the non-government sector and the state of regional economies;
- comparative evaluation of the Russian regions in terms of the level of their transition towards private property within privatization process (the qualitative and statistical analysis);
- recommendations on the respective institutional problems (at the federal level and in the area of improvement of regional policy);
- survey of the privatization process in Canada.

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Chapter 3 was drafted by the Candian side (Sussex Circle)- Harry Swain with the assistance of Troy Goodfellow. This chapter has benefited from comments from Karen Minden, Glen Shortliffe and Ron Jackson of Sussex Circle, and from David Doubilet, a partner in the law firm Fasken Martineau with extensive experience of privatization transactions.

Chapter 1. Ownership structure: some theoretical issues and empiric evaluation output.

1.1.Theory of property rights

The issue of economic nature of property rights lies beyond the boundaries of “pure” theory; recently it has been increasingly associated with rather pressing economic policy problems, including those noted in terms of reformist policies in transitional economies. Thus, while identifying the problems caused by the Russian privatization, in his latest review of a new institutional theory (O. Williamson, 2000, p. 609-610), O. Williamson considers the privatization strategy not quite successful and relates that to the adherence of the individuals that had elaborated it to the Grossman-Hart-Moore (GHM) property rights theory. In this connection, let us address the GHM concept.

Its authors (see Grossman, Hart 1986; Hart Moore 1990, Hart 1995) relate the identification of property rights primarily with the “incompleteness” of economic contracts¹. In the situations that reveal the fact that the given contract does not bear any direct references to the respective rights and obligations of the parties concerned, the unregulated conditions for the use of the production factors may be determined by their owners. That is why the noted concept defines the property rights as residual – as long as the provisions of the contract are concerned – governance and control rights. At the same time the company implied appears some collection of assets, while the property right is found, primarily, as the owner’s right to govern his assets in the respective situation (Hart, Moore 1990).

The theoretical evaluation of GHM undoubtedly is very interesting, however, the common nature of the genuine assumptions and especially the fact that the GHM concept is focused on relation – specific investments entails the understanding that the provisions of the concept are unlikely to be subject to empiric testing. Without the description of institutional forms of

¹ The definition of “incompleteness” of economic contracts by itself has become recently an object of a serious theoretical discussion- See Maskin, Tirole 1998; hart, Moore 1999.

implementation and enforcement of property rights, apparently, such provisions appear very general².

Nonetheless, the GHM concept allows a better understanding of a number of substantial changes in the structure of property distribution. Thus, the projections that proceed from the GHM models are well correspondent to the theoretical models of a particular sector's development elaborated by J. Stigler (Stigler, 1951). Given, for example, a relatively small number of companies in the given sector, the integration of those manufacturing finished produce and their suppliers of raw materials appears much more expedient (ensuring a higher raise of their efficiency) compared with the situation when the number of firms producing finished goods is relatively great.

At the same time, in an effort to explain current trends to both the break-up of the earlier established "amorphous" conglomerates and disintegration of the contracted out productions, O.Hart refers to the fact that the majority of sectors experience transition to more flexible technologies which results in a relatively less mutual complementary nature of real assets (see Hart 1995, Chapter 2).

The general approach to the analysis of property rights from the viewpoint of incompleteness of contracts has been practiced successfully in other areas of economics, for instance, in the general theory of economic regulation (Schweizer 1993), in the corporate finance theory (Aghion, Bolton 1992), and in the course of evaluation of economic structure (Bolton, Whinston 1993).

The noted concept experienced an interesting twist in the paper by O.Hart, A. Schleifer and R. Vishny 1997. The authors evaluated the choice between services delivered by enterprises based upon public and private ownership. Applying the simplest classification, the researchers divide the respective enterprises investment into those that ensure lower costs and the investment aimed at ensuring a higher quality of the services provided. The output (the service delivered by the enterprise) bears a number of characteristics, providing, however, that not all of those may not be specified in every detail in the system of concluded contracts.

The evaluation of the Hart-Schleifer-Vishny's models allows the following conclusions: in the frame of a public enterprises (institution), as per their contracts, its Directors may have obligations related to some lowering of costs or, at best, they may be materially interested in that, which is also applicable to managers' efforts aimed at improvement of those characteristics of the "quality" that can be stipulated in the contract. However, a regular employee at the public enterprise has no special incentives to care of innovations aimed at the improvement of the said characteristics stipulated in the contract. In contrast, the owner of a private enterprise is directly interested in any

² O. Williamson once noted (most likely, fairly correctly) that the ownership theory simply did not distinguish organizational forms and organizational innovations (see, for instance, Williamson 1993, p.51). One cannot help but note, however, that the said consideration is not quite correspondent with the aforementioned O. Williamson's concerns about "dangerous effects" of the application of the GHM concept.

changes in the quality of the services that might (should the respective costs happen to be not so high) ensure the expansion of the market demand. Hence, in the conditions of incompleteness of contracts, the additional advantages of the economic operations based upon private ownership find themselves directly related to the residual property rights.

Let us note that the economic theory of property rights allows singling out only some fundamental (“basic”) appropriation relations. At the same time, the role played by a concrete economic institution to a great extent is dependent upon the traditions and informal behavior norms that took roots in the given society. J. Stuart Mill once commented that the produce distribution as well as the system of economic relations that manifests itself in the forms and methods of distribution can be considered result of the effect of two groups of factors – competition and tradition (“custom”), providing that economists are inclined to pay their attention only to the former group (see Mill 1965 [1848], Book II).

It is substantial that while considering mechanisms based upon market competition, one should also take into account quite an important role of the behavioral standards and specifics, and constraints born by historic traditions. It is easy to note, for instance, that the aforementioned evaluation of property rights suggests an economy that implies both the well- developed structure of contract agreements that specify the results of market deals and the “contract culture” that has been cultivated for decades, if not centuries. The efficient functioning of contract rights and property rights enforcement mechanisms suggests the confidence in their reliability on the part of participants in the economic process.

It is credible commitment that D. North considers to be a key category describing such a situation. Similar to the majority of characteristics of such kind, credible commitment constitutes some notable metaphor rather than any formally stipulated concept; that is why a search for some specially strict definition of this commitment would be in vain. Commenting on D. North’s concept, one of the prominent representatives of the new institutional theory G. Libecap (G. Libecap 1993) assumes that in the narrow sense of the word, such a commitment characterizes the enforcement of contract rights in commercial deals, while in a broader sense it implies the restriction of arbitrary actions on the government’s part that ensures such a level of reliability of property rights that is needed to implement long-term investments³.

1.2. Efficiency of the economy based on private property: empiric evaluation

As noted above, the empiric testing of theoretical considerations on efficiency of private property is fairly complex. In a number of cases, while characterizing long historical periods, researchers restrict themselves with the statement of the consistency between the formation of modern private property institutions and the parallel process of the accelerating economic growth

(see North 1981; North 1993, p. 19), as well as with general comparisons of the dynamism inherent of the economies based on the modern private property with the low efficiency of the economy based on the centralized public property and (military) bureaucratic regulation.

At the same time, the last several decades showed attempts to apply a stricter statistical testing to some general theoretical conclusions, for instance, the considerations of the role played by “credible commitments” and, particularly, the role of the firmness of the private property rights.

It is the selection of specification of the respective regression equations that plays an important part in such calculations. Thus, with all the statements concerning inefficiency of “excessive” public ownership, during last decades it has been hard to follow an ambiguous correlation between economic operations and the public sector’s magnitude: say, the bigger is the proportional weight of public ownership, the lower is the economic growth rate. In this case (as well as in many other ones) the hardest thing is to ensure comparisons “given other conditions being equal”. As far as regular cross-country multiple regressions are concerned, usually the proportional weight of public ownership does not have any serious impact on economic growth rates. An effort to estimate econometrically “credible commitments” give a rise to yet more problems, however, in this areas some chances for empirical analysis arise as well.

The theoretical models elaborated up to date (see, for example Fiermeire, Ericson, Frye, Lewis 1997) allow, particularly, the following conclusion: should the participants in the political and economic life, upon mutual consent, be capable to ensure credible constraints related to the consequent “off-market” changes in the ownership structure, that may have a positive effect on the general efficiency of economic operations. Let us consider some attempts of statistical research into some aspects of the noted dependence.

In the ‘90s researchers began to increasingly address the estimates of the level of “firmness” of private property rights and the impact of the firmness. Thus, J. Scully and D. Slottje (Scully, Slottje 1991) computed the value of some index designated to estimate the level of protection of private property rights from the authorities’ encroachment – the index that, as noted above, may characterize a broad interpretation of “credible commitments”. Using the index, I. Torstensson found a strict negative correlation between the GDP growth rate per capita and the “level of reliability” of private property rights (see Torstensson 1994). The analogous, though, apparently, more complex, political and economic interdependences are revealed in the course of the study of the impact of instability that characterizes political life in some countries on their economic growth rates.

The firmness of property rights has always been considered one of the major characteristics of investment climate (being a necessary, though, of course, not sufficient condition for carrying out

³ The detailed evaluation of the relationship between the “credible commitments” and private ownership rights can be found in a paper that deals specifically with the nature of circumstances emerged in the conditions of the ultimate economy- See Diermeier, Ericson, Frye, Lewis 1997.

long-term investments). That is why one can use the data of the ratings that characterize investment climate in different countries as indirect characteristics of the outspread of credible commitments. Thus, calculations by S. Knack and F. Keefer revealed rather a strict positive correlation between economic growth rates in single countries and their favorable investment climate (see Knack, Keefer 1995) (at the same time, that is likely to require the specification of the direction of the genetic relations in the frame of the noted dependence)⁴.

In another paper, K. Clague, F. Keefer, S. Knack, and M. Olson demonstrated that in cross-country comparisons the rating scores characterizing investment climate (the economy's institutional structure) lose their statistical significance if the volume of investment is introduced as one of (the other) independent variables to multiple regression equations. According to the researchers concerned, this may testify to the impact of institutional characteristics of private ownership on the economic growth rates, indeed, through the mechanism of long-term investment and capital accumulation (Clague, Keefer, Knack, Olson 1997, pp. 77-79).

At the same time a number of empiric research papers tackle the comparison of efficiency of private enterprises with public ones operating in different sectors of the economy.

The research conducted over last decades covered rather a broad circle of sectors: air transport (Davies 1997), auto-motor transport (Palmer, Quin, Resendes 1983; Pashigian 1976), electric power supply (De Alessi 1977; Pelzman 1977), water supply (Crain, Zardkoohi 1980; Morgan 1977), healthcare (Schlesinger, Dorwart 1989; Wilson, Jadow 1982), communal services (Savas 1982). Let us note that it was the central government and/or local authorities that traditionally played a key role in a number of the noted sectors (healthcare, water supply, communal services). An extensive review of research papers of this kind is provided in the work (Broadman, Wining, 1989). Almost all the aforementioned papers with a less or greater certainty formulated the conclusion of a relatively higher efficiency of private enterprises' functioning, which can also be proved by the results of privatization in the developed countries, for instance, UK (Newbery, 1997; Vickers, Yarrow, 1989) and in some other countries (See, for example, Meggison, Van Randenborg, 1994; La Porta, Lopes-de-Silanes, 1997).

The lifetime of private property in the post-socialist Russia has been fairly short, however, some estimates and calculations of the national and foreign experts can also testify to the relatively less efficiency of public enterprises in many sectors (See, for instance, Barberis, Boycko, Schleifer, Tsukanova, 1996; the Leontieff Center 1996).

The research conducted by the group of Canadian (Joan DeBardeleben and Andrea Chandler) and Russian (A. Galkin, A. Kazakov, and V. Popov) experts on economic development of the Russian regions in the transitional conditions is of a great interest in terms of the "regional

⁴ As the indirect proof to the noted regularities, one may also refer to calculations of multiple regressions in which the economic growth rates show a substantial positive correlation with different economy liberalization indices used as independent variables (see, for instance, de Melo, Deniser, Gelb 1997; Leblang 1994)

dimension". The respective analysis is based upon the following original prerequisites: starting conditions, regional authorities' institutional possibilities (regional budget expenditure as % of GRP, the number of newly created enterprises and their contribution to the region's economy, crime rate). The analysis conducted particularly allowed the authors to draw a conclusion as to the difference in promoting economic transformations are not statistically significant for explaining the volumes of GRP and industrial output. The progress in economic reforms has had a positive impact on the dynamics of the population's real incomes in the reform-oriented regions through the inter-regional redistribution of business incomes carried out by big oil companies, trade, and banks.

Whilst the objectives of the present paper have been postulated in its Introductory Section, we would like to note the following aspect. The authors of this paper assume that privatization of enterprises in a number of key sectors can be consider one of the main ongoing institutional transformations in the country.

The forms and methods of privatization and its dynamics in the regions differ greatly from each other. Proceeding from the aforementioned considerations, one may assume that the differences in terms of private sector's scale and, especially, the differences in conditions of its functioning may have a very substantial impact on the socio-economic development processes in single regions.

We have noted some problems above that were related to the employment in the present research of just aggregate data on the proportion of public (private) sectors in the whole economy. Regretfully, the authors of this paper have only this kind of statistical data available, and they use only those data series that can be considered to be more or less comparable to each other. Let us hope that, in contrast to cross- country comparisons, the cross-regional analysis deals with somewhat more homogenous political and social structures. That may allow a clearer identification of the impact of the private sector and its single characteristics on the region's economy.

Chapter 2. The Russian Privatization Model

2.1. Introductory Remarks

Modern works on the economy interpret the clarity (definiteness), stability, and predictability of property rights as the key factors behind the economic growth and directly ties stable economic development to these factors⁵. At the same time, the role of clearly defined

⁵ Coase R.H. The problem of social costs. *Journal of Law and Economics*, 1960, Vol. 3, N 1, pp. 1-44; Demsetz H. Towards a Theory of Property Rights. *American Economic Review*, 1967, 57, N 2, pp. 347-359; North D.C. *Structure and Change in Economic History*. New York, Norton, 1981, etc.

property rights may vary depending on the size of organizations, state or private property, access to information, etc⁶.

It is hard to overestimate the importance of this key element of institutional transformations in the framework of a transition economy, including in the context of respective state regulation⁷.

Any concept of the ownership being the basis of any economic system (even in the most abstract terms and however interpreted) *per se* assumes that (1) transformations related to the ownership sphere in transition from one economic system to another shall be of the systemic nature, and (2) the reform in general in the framework of a transition economy shall also be of the systemic nature. This, in particular, is the principal distinction of the privatization process as the quintessence of the ownership reform in the framework of transition economy from any privatization measures implemented in the Western and developing countries.

On the whole, the privatization (both big- and small-scale), legislation (laws, legal institutions, their fullness and enforcement effectiveness), the soundness of the financial system (financial intermediaries), and the role of the government⁸ are analyzed as a rule in order to compare progress in the area of institutional transformations in a transition economy. Shifts in the ownership structure in a transition economy are traditionally classified as the core of institutional transformations.

Privatization is the logical starting point of an analysis of the transformation of property relations in a transition economy on the whole and the comparison of Russia's regions. The irrefutable argument for this methodological approach is the fact that exactly mass privatization in Russia facilitated both the emergence of the corporate sector (the development of the national model of corporate governance), and gave the initial impetus to the development of the corporate stock market.

At the same time it is necessary to regard the privatization process as a whole, i.e. not only as technical procedures of sales (transfers) of assets from the public sector to the private one, but also as a more fundamental process of the emergence of private property and the formation of institutional prerequisites for further development of market environment at the federal and regional levels.

There are too many studies on privatization issues to present the complete list⁹. However, these studies insufficiently cover the subject of this paper – the cross-regional comparison of

⁶ Arrow K.J. The limits of organization. New York, Norton, 1974; Stiglitz J.E. Whither Socialism?. The MIT Press, Cambridge, Mass., 1994; World Development Report 1998/1999. Knowledge for Development. Washington D.C., World Bank, 1998, etc.

⁷ On the problem of “poorly defined” property rights, including in transitional economies, see, for instance: Shleifer A. Establishing Property Rights. World Bank's Annual Conference on Development Economics. Wash.1994. April 28-29.

⁸ See: From plan to market. World Development Report 1996. The World Bank. Oxford University Press, 1996; Transition Report 1997. Enterprise Performance and growth. EBRD, London, 1997; Transition Report 1998. Financial Sector in Transition. EBRD, London, 1998.

⁹ On privatization issues in the Western countries and the developing world, see, for instance: Bizaguet A. Le secteur publique et les privatisations.- Paris: PUF, 1988. Hanke S.H., Ed. Privatization and Development. San Francisco: ICS

transition to the private ownership in the framework of the privatization process in Russia. As is known, the official RF agencies only registered some qualitative changes taking place in regions; however, they failed to conduct a qualitative comparative analysis of these shifts. However, this factor may be of substantial practical importance for the appraisal of the investment climate in regions. Finding out cross-regional disproportions will also permit to elaborate recommendations concerning the instruments and priorities of the federal legislation and privatization policies.

2.2. Prerequisites for the Formation of the Russian Privatization Model

Initially, the development of the modern privatization process was related to shifts in the reproduction mechanism and the structural reconstruction of **developed Western economies** started in the second half of 1970s, which required a substantial review of the structure of government regulation of economy formed in the 1950s and 1960s. In the context of these processes a serious revaluation of the place and the role of public property and state entrepreneurship in the economy took place as reflected via privatization processes developing in the 1980s and 1990s. This phenomenon spread over not only the majority of Western European countries, where the role of the government was traditionally important, but also in the USA, Japan, Switzerland, where the public sector was comparatively small. Neo-conservative shifts in the ideology, general economic theory, and economic policies of industrial nations were later exported to **developing countries**

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For the comparison of the different privatization models in transition economies see, for example: Blaszczyk B., R. Woodward, eds. Privatization in Post-Communist Countries. Warsaw: CASE, 1996, Vol.1-2. Bohm A., ed. (1997): "Economic Transition Report 1996".- Ljubljana: CEEP. Earl J., R. Frydman, A. Rapaczynski, Eds. (1993): Privatization in the Transition to a Market Economy. London, Pinter Publishers. EBRD (1997): Transition Report 1997. Enterprise Performance and growth. London. EBRD (1998): Transition Report 1998. Financial Sector in Transition. London. OECD (1995): Mass Privatisation. An Initial Assessment. Paris: OECD. OECD (1998): Capital Market Development in Transition Economies. Country Experience and Policies for the Future. Paris, OECD. Railean V., Samson I., Eds. (1997): Post-Privatization Period in Eastern Europe: a Chance for Enterprises and Shareholders. Chisinau. The World Bank - OECD (1997): "Between State and Market: mass privatization in transition economies." Ed. by Ira W. Liberman, Stilpon S. Nestor, Rai M. Desai. The World Bank-OECD. The World Bank (1996): "From plan to market." World Development Report 1996. Oxford University Press.

For a detailed description of the Russian privatization at large see: A. Radygin (1994): Reforma sobstvennosti v Rossii: na puti iz proshlogo v budushee (Ownership Reform in Russia: on the Way from the Past to the Future). M.: Respublika. Boyko M., Shleifer A., Vishny R. (1995): Privatizing Russia. -Cambridge MA: The MIT Press. Ernst M., M. Alexeev, P. Marer (1996): Transforming the Core. Restructuring Industrial Enterprises in Russia and Central Europe. Westview Press. IET (1992-1999): Annual reports on Russian economy. Trends and prospects. Moscow: Institute for the Economy in Transition. McFaul M., T. Perlmutter, Eds. (1995): Privatization, Conversion, and Enterprise Reform in Russia. With a forew. by Kenneth Arrow. Boulder, San Francisco, Oxford: Westview Press, 1995. Radygin A. (1995): "Privatisation in Russia: Hard Choice, First Results, New Targets". London: CRCE-The Jarvis Print Group. Vassilyev D. (1995): "Privatization in Russia - 1994". In: Privatization in Central&Eastern Europe 1994. Ed. by Andreja Bohm. CEEP Annual Conference Series N 5, pp. 343-385.

both as ideas spread within the world scientific community, and via direct Western pressure in the framework of international aid. In late 1980s and early 1990s over 80 industrial Western nations and developing countries in Asia, Africa, and Latin America completed or were carrying out various programs for the privatization of state property¹⁰.

In the framework of the technological paradigm, including the neo-classical theory (in terms of O. Williamson (Williamson, 1990)), it is assumed that the relationship between the type of ownership and the effectiveness (results of an activity) of an enterprise is of no substantial importance. It is also assumed that the market structure and competition are much more important for the effectiveness of an enterprise than who is the owner of assets. At the same time, G. Yarrow notes that “the competitive and regulatory environment is more important than the question of ownership per se. In competitive markets there is a presumption in favor of private ownership; Where there is a natural monopoly, vigorous regulatory action is required” (Yarrow, 1986).

Due to this fact, the evaluation of advantages private enterprises have over public ones became a separate principal problem. In more narrow terms, it is the problem of the positive impact privatization has on the effectiveness of enterprises. The majority of researchers tend to answer this question positively; however, the consensus has not been reached yet (there is a vast number of both theoretical and empirical studies of the problem). There are at least several approaches favoring private enterprises:

- social: public enterprises are an instrument aimed to “heal” market flaws by implementing price policies taking into account social marginal prices (Shapiro, Willig, 1988). These functions and costs adversely affect the effectiveness of enterprises;

- political: political (bureaucratic) interference in enterprises' activities results in over-employment, non-optimal choice of products, non-optimal placement of investments and their shortages, unclear incentives for managers. These enterprises are more susceptible to pressure exerted by interest groups to the detriment of profit maximization (Shleifer, Vishny, 1994);

- competitive: privatization facilitates competition, which makes enterprises work more effectively. Private enterprises better accept the discipline of commercial financial markets (Kikeri, Nellis, Shirley, 1992);

- stimulating: managers of public enterprises may lack necessary incentives of effective work, or may be poorly controlled (Vickers, Yarrow, 1988);

In spite of the broad range of development levels, concrete motives of privatization (budgetary revenues, rehabilitation of state finances, higher effectiveness of economy, revival of competition, management reform, specialization and demonopolization, ideology (for instance,

¹⁰ On privatization issues in the Western countries and the developing world, see, for instance: Bizaguét, 1988; Hanke, 1987; Kikeri, Nellis, Shirley, 1992; Nellis, Shirley, 1991; Shapiro, Willig, 1990; UNCTAD, 1993; Vickers, Yarrow, 1988; Vuylsteke, 1988.

«people's capitalism»), attraction of foreign investment), legal and economic traditions, political and ideological doctrines, all these countries share a key feature requiring no comment: privatization is carried out in the framework of already existing market and competitive environment, when the private sector is already present (dominant), and in the course of progressive evolutionary development of the economy.

Systemic Transformations in Former Socialist Countries, first of all, in Russia and countries of East and Central Europe, started somewhat later, approximately in 1989. In the context of transition from the command and administrative (socialist, planned, centrally planned) economic system to an economic system based (at least according to the economic theory) on market and competition principles privatization plays a special role.

The triad «stabilization – liberalization – ownership reform» became the classical substantive definition of the guidelines for the systemic transformations in a transition economy, at least at their first stage. Naturally, the privatization policy and practice are the core of the ownership reforms in economies in transition. Each transition economy pursued specific privatization policies (see Table 2.1) depending on national conditions; however in all cases the transfer of assets to the private sector was of systemic nature from the standpoint of the progress toward the market economy¹¹.

TABLE 2.1.

Privatization results in some countries with the economy in transition

| Country | Privatization methods | | SOE total assets privatized, %, 1997 | Number in 1994-1997 (or share, by the end of 1997, in %) of medium/large firms privatized | Number in 1994-1997 (or share, by the end of 1997, in %) of small firms privatized | Total private sector share in GDP, %, mid-1998 |
|------------------------|---|-----------------------|--------------------------------------|---|--|--|
| | Main | Secondary | | | | |
| Albania | OS, MEBO | MP1 (interr. In 1997) | Up to 25 | 71 | 5600 | 75 |
| Bulgaria | OS (DS) | MP1 | 20,0 | n.a. | (21,1) | 50 |
| Czech Rep. | MP1 | OS (DS) | More than 50 | 1680 (74,2) | n.a. | 75 |
| Slovak Rep. | MEBO (DS) | MP1, SF | 62,0 | 1281 (79,4) | n.a. | 75 |
| Bosnia and Herzegovina | Uncertain (MP, MEBO, OS, restitutions – mainly in laws) | | n.a. | n.a. | n.a. | 35 |
| Croatia | MEBO | SF | Up to 50 | 1600 (67,5) | n.a. | 55 |
| Macedonia | MEBO | DS, SF | Up to 50 | (70,8) | | 55 |
| Slovenia | MEBO | SF, MP, OS, IP | More than 50 | (72,0) | | 55 |
| Hungary | OS (DS) | PC, MEBO | More than 50 | 1566 | (87,7) | 80 |
| Poland | MEBO | MP1, OS (DS) | More than 50 | (35,7) | n.a. | 65 |
| Romania | MEBO | OS (DS) | Up to 50 | (28,4) | (95,5) | 60 |

¹¹ For comparisons of the different privatization models in transition economies see, for example: Blaszczyk, Woodward, 1996; Earl, Frydman, Rapaczynski, 1993; OECD, 1995; Ernst, Alexeev, Marer, 1996; Railean, Samson, 1997; The World Bank, 1996; The World Bank – OECD, 1997; EBRD, 1997, 1998; Boehm, ed., 1997; IET, 1998 et al.

| | | | | | | |
|---------------------|---------|------------|---|----------------|---------|------|
| Armenia | MP1 | MP2, MEBO | Up to 50 | 1010 (72,3) | (77,8) | 60 |
| Azerbaijan | MP1 | DS, MEBO | 70% of 3200 enterprises' assets by mid-2000 | | (71,0) | 45 |
| Georgia | MP2 | MEBO (DS) | More than 50 | 876 (73,1) | (93,8) | 60 |
| Kazakhstan | MP1 | OS (DS) | 70 | n.a. | (100,0) | 55 |
| Kyrgyzstan | MP1 | MEBO | Up to 50 | (63,8) | | 60 |
| Estonia | OS (DS) | MEBO, MP | More than 50 | (99,0) | (99,6) | 70 |
| Latvia | MP1 | OS (DS) | 38,2 | 1351 | n.a. | 60 |
| Lithuania | MP1 | MEBO, DS | Up to 50 | 1034 | n.a. | 70 |
| Belarus | MEBO | MP | n.a. | (25,5) | | 20 |
| Moldova | MP2 | OS (DS) | Up to 50 | 1100 | n.a. | 45 |
| Russia | MP2 | OS, MEBO | More than 50 | 35 000 | 115 000 | 70 |
| Ukraine | MP1 | MEBO | Up to 25 | 7800 (72,4) | n.a. | 55 |
| Tajikistan | MEBO | MP | Up to 25 | (11,3) | (50,0) | 30 |
| Turkmenistan | MEBO | DS | n.a. | 15 | 1779 | 25 |
| Uzbekistan | MEBO | MP, DS, IP | Up to 50 | 18 264 | | 45 |
| Mongolia | MP | MEBO | n.a. | 470 (70,0) | n.a. | n.a. |

Abbreviations: MP1 – mass (voucher) privatization with equal access of all citizens, MP2 - mass (voucher) privatization with significant concessions to insiders, MEBO – management and employee buy-outs, OS – sale to the formally outside owners, DS – direct sales, PC – preferential credit, IP – through insolvency proceedings, SF – transfer of shares to the social funds. Main and secondary privatization methods indicate the contribution (importance) of the concrete methods to the privatization of SOE assets.

Sources: Boehm, ed., 1997; EBRD, 1997,1998; IET, 1998.

In Russia this process has not started immediately and had been preceded by a series of preparatory measures of ideological and legal nature. Equally, upon the completion of privatization programs the ownership reform in a broadly defined economy in transition does not end, but spurts, since the really effective system of ownership rights emerges only after the «primary» privatization.

Such problems as the connection of privatization with shifts in power relations in a society (in particular, the problem of restitution); the scope of privatization; the lack of a rational market and competition environment; huge difficulties of technical nature; the necessity of ideological choice; the lack of necessary institutional infrastructure at the initial stage; high levels of corruption and other criminal phenomena are registered in practically all economies in transition. Although in the course of privatization Russia did not have to settle such problems as restitution or noticeable regional separatism, the elaboration and implementation of privatization policy was especially complicated due to a more strong impact (as compared with other economies in transition) of the following factors:

First, the spontaneous transfer of public enterprises and property in other ownership forms (collective and private, or quasi-collective and quasi-private) took place at the micro-level alongside with the choosing of global models;

Second, the highest level of concentration coupled with the underdevelopment of many sectors of the Russian industry hindered the implementation of effective and socially «soft» structural adjustment before and in the course of privatization;

Third, and most important, exactly privatization and the problems of ownership transformation are the areas of the economic reform most affected by the political and populist pressures.

In particular, the political factor behind privatization policies directly increases the inconsistency and instability of the legislative base reflected in the lack of consistent legal approach, simultaneous existence of contradictory normative acts, frequent changes of tactical aims and models, in a number of concrete cases the approval of acts providing some or other party with exclusive rights outside of the legislation, the possibility that some decisions may be abolished.

2.3. The Stage of Spontaneous Privatization and its Specifics

The initial “accumulation” of the Russian capital took place in the context of a fast broadening gap between the late-Soviet legal base, the ideology of “market socialism” advocated under Gorbachev, and the economic practices of “wild capitalism” in late 1980s and early 1990s. In this period huge (at that time) amounts of money were generated in the course of arbitrage between sectors (the public sector, where prices were fixed, and the “cooperative and lease” sector, where prices were free).

In late 1980s, the state monopoly of foreign trade was abolished. The gap between the market and official Ruble exchange rates created a vast new field for the activities of «arbitrators». The state, which over years had subsidized the economy (mainly at the expense of foreign borrowing) was the source of this late-Soviet enrichment as the funds of the public sector were rapidly pocketed by «private entrepreneurs.»

Late 1980s and early 1990s saw the start of the spontaneous privatization of public property, as managers of some state-owned enterprises were given control over their assets (via lease, creation of structural business units, establishment of various associations, etc.). Since the system of state control over enterprises collapsed, on the one hand, and there was no legal base for private property, on the other hand, the control was seized and maintained by force that involving criminal structures and corrupt state and party officials traditionally responsible for the control over enterprises. There appeared first foreign (and pseudo-foreign) pseudo-investors, who aimed only to control the financial flows.

Over this period, there emerged new integrated structures, mostly pseudo-holdings in the form of various concerns, unions, associations, etc. created on the basis of former USSR ministries and departments in the interests of their administrations and party and Komsomol nomenclature. The characteristic features of such holdings were unclear ownership structure, highly centralized and ineffective management being the legacy of former bureaucratic structures.

In this situation, the time was ripe for the second logical step – the legalization of privatization by formalizing the ownership rights of the informal controllers. “Red directors” and former officials striving to formalize their control in the framework of the new system of private

property became a necessary precondition for the mass privatization in 1992 through 1994. However, the contradiction between the ideology and reality became clearly visible at that time. On the one hand, from the point of view of the ideologists privatization was an axiomatic element of the emerging orthodox market capitalism with clearly defined (in the sense of Coase's theorem) property rights. At the same time, they saw the formalization of property rights as a method aimed to stop the intensive plunder of assets in the course of the spontaneous privatization. Paradoxically, this type of privatization (although the state had lost any control over state-owned enterprises) became the last attempt to regain this control. On the other hand, this was an alien ideology for concrete purposes of the managers of state-owned enterprises (and their partners). At the same time, managers needed corporatization and privatization as tools to legalize their control over enterprises' funds and to create formal legal guarantees against persecution for manipulation of state-owned assets (funds).

As a result, the interests of reformers and state managers coincided in formalizing ownership rights; however, they differently saw the process' aims. In the end, the practice won over the ideology. Formal ownership rights became only a screen hiding the legalization of "eating away" enterprises' assets and resources¹². In other words, the paradox of the situation was that privatization was a strategic necessity to carry out market reforms; however it needed the political will, consistent legal system, initially tough enforcement (of both laws and contract obligations) in order to succeed.

At the same time, in the framework of the model of state-owned enterprise current at the time there were no other – alternative to directors – forces, which would be able to "launch" privatization at concrete enterprises from the standpoint of common interest in the progress of market reforms. Therefore, privatization could not take place without directors' support, while directors would not support privatization in case tough sanctions against their "spontaneous" activities were introduced.

2.4. Mass Privatization: the Reasons behind the Choice of the Model and Major Results

The RSFSR Supreme Council approved first laws on privatization in Russia in the summer of 1991; however, their practical implementation started only in 1992. On December 29, 1991, the RF President signed the decree «On Accelerating Privatization of State and Municipal Enterprises», in compliance with the decree the Key Guidelines of the Program for Privatization of State and

¹² As Ye. Gaidar said in an interview: "We intended to carry out privatization for money upon having achieved certain financial stabilization, upon having formed market elements so there appeared some funds in the country, for which we could sell enterprises... However, very soon it became clear that it would be naïve to expect financial stabilization under conditions of uncontrolled economy; therefore we had to act in compliance with the law on privatization approved by the Supreme Soviet... Today those who struggled to minimize the price of enterprises are among most severe critics blaming the reformers for giving property away. The logical outcome was that the country got not efficient owners, but people having the right to dispose of property, which does not belonging to them. (Ye. Gaidar.

Municipal Enterprises based on the draft State Privatization Program for 1992 were approved. The implementation of the program started on January 1, 1992. The Key Guidelines became the first document regulating the practical privatization process and started the program (i.e. not spontaneous) privatization in Russia.

The first privatization program (1992) was the key instrument for the subsequent mass privatization carried out in 1992 through 1994, at the same time it was a compromise between cash (for active part of the populace) and free privatization (vouchers for all and preferential schemes for employees), on the one hand, and, on the other hand, the model of «privatization for all» and of distribution of property among enterprises' employees. This compromise was the source of such apparent in economic terms flaws in the model, as the evaluation of property according to the residual method; disregard of the restructuring (attraction of investment) of enterprises prior and in the course of technical privatization, the problems faced by enterprises' social infrastructures, demonopolization problems arising due to maintaining of technological chains, lack of investment, etc.

It is well-known that the Russian privatization program based on the **model of mass privatization** combining the large-scale corporatization (supply side) and the distribution of privatization vouchers among Russian citizens (demand side). The important elements of this model were the offering of shares to insiders for closed subscription, the system of voucher auctions, and the system of intermediaries (voucher investment funds). The major outcome from the standpoint of the prospects of development of the new ownership rights system was the emergence of new institutions: the corporate sector of the economy (over 30,000 JSCs), the market of corporate securities, the system of corporate investors, the mass privatization resulted in about 40 million formal shareholders¹³.

From our point of view, the understanding of real (attainable) goals of privatization in the transition economy at different stages of the transformation was of the equal importance. It would be naïve to evaluate privatization results by the formal goals set in privatization programs. From our point of view, in reality privatization had only one goal: the temporary mass distribution of private property and securing of formal ownership rights within the Russia's society involving a minimal number of social conflicts in hope that subsequent transactions would work in favor of effective and responsible owners.

Izbavleniye ot illyuziy i zabluzhdeniy – pervyi shag k vyzdorovleniyu (Getting Rid of Illusions and Misconceptions is the First Step to Recovery). In: Chelovek i Trud (People and Labor), 1999, No. 11, pp. 4 – 11).

¹³ For detailed review of the first (voucher) stage of privatization see: Radygin, 1994; Boyko, Shleifer, Vishny, 1995; Radygin, 1995a-b; Vassilyev, 1995; ИЭППИ / IET, 1998b. For the detailed review of the second (cash) stage of privatization see: Bohm, ed., 1997, Radygin, 1996a; IET, 1992-1999.

2.5. Specifics of Cash Privatization as the Second Stage of the Transformation of Ownership Relation

Privatization proceeded most intensively in 1993 through 1994. As Table 2 demonstrates, in 1994-1997 there was registered a stable and continuous decrease of the new enterprises participation. As per RF State Property Ministry data, about 130 thousand enterprises (58.9 per cent of the total number of enterprises in the RF by the beginning of privatization) were privatized by January 1, 2000. At the same time, as a result of privatization in 1992 through 1999 the state was left with a considerable number of shareholdings in privatized enterprises. By 2000, the state still owned 3100 blocks of shares (via “golden shares”) and 7 to 8 thousand unsold ones. The sale of these shares became the key problem of privatization policy per se pursued in 1995 through 1999.

The goals, which were not achieved within the framework of 1992-1994 model, first of all the restructuring of the enterprises and mobilization of investments, demanded the formation of such a privatization model, which might at least partially compensate enterprises for the methods used during the sale of their stocks at the first stage of privatization – methods not based on economic considerations.

The **cash stage of privatization** based on the “Key Provisions of the State Program for Privatization of State and Municipal Enterprises in the RF after July 1, 1994” (approved by Presidential Decree No. 1535 of July 22, 1994). However, the part of the Privatization program approved the RF President in December of 1993, which did not contradict the Key Provisions, and the law on privatization of 1991 remained in force.

Since the start of cash privatization the maximization of federal budget revenues became the priority; therefore the “investment vs. budget” dilemma existing in 1995 through 2000 was settled in favor of budget. On the whole, it may be noted that in 1995 through 2000 the unified privatization policy was transformed into an essentially spontaneous process of residual privatization both at the federal and regional levels. This period is also characterized by the utilization of quasi-privatization instruments for the purpose of attracting political allies among the regional elites and major financial groups. The process of consolidation and further distribution of property among the major financial groups and natural monopolies was also still underway.

The **loans-for-shares auctions**, which took place at the end of 1995, are well known. The chronic budget crisis and failure to meet budget targets for privatization in 1995 were among the most important reasons for the implementation of this scheme. The twelve auctions of major Russian enterprises, which took place raised a total of 5.1 trillion rubles for the budget, including 1.5 trillion rubles of enterprise debts paid to the state. Two major Russian banks –ONEKSIMbank and Menatep – dominated these auctions.

Despite the legal veneer of the auctions, they were to a considerable extent either the veiled purchase of shares by the enterprises themselves, or the direct non-competitive sale of shares to interested banks. The numerous court hearings and examinations of the legitimacy of these deals in

1996-1997 do not provide any evidence of legal violations committed during the loans-for-shares auctions and subsequent sale of the shares. However, this is more proof of imperfections in the regulatory and legal base at the time, than of transparency in the loans-for-shares auctions that took place.

It is clear that almost all collateral-holders were interested in acquiring the shares as their own property and also in minimizing the cost of the transaction. The preferred method was to organize a quasi-open sale of the collateralized shares and their acquisition through an affiliated company. By the beginning of 1998, this method had already been used for acquisition of shares in the oil holding company, YUKOS, (45% initially and 33.3% after dilution; qualified control went to Menatep), Sidanko (51%; control went to ONEKSIMbank), Sibneft (51%; formally control went to 'Neftyanaya finansovaya kompaniya'), Surgutneftegaz (40.12%; de facto the company bought up its own shares), Lukoil (5%; de facto the company bought up its own shares), and RAO Norilsk Nickel (38%; control went to ONEKSIMbank).

The scandals surrounding the majority of these deals are well known. The least contentious auctions were of shares in Surgutneftegaz and Lukoil, in which the companies bought up their own shares through the management companies of their pension funds. In all these tenders, the final price minimally exceeded the starting price, and thus, the state's earnings were insignificant. The main reasons for this were the lack of real competition, the collusive character of a number of the auctions, and the unsatisfactorily formulated demands and conditions of the privatization transactions.

The **new law** "On privatization of the state property and the guidelines for the privatization of the municipal property in the Russian Federation" (N123-F3 signed by the Russian president on 21 July 1997) formally went into force on August 2, 1997. Among its major innovations the following may be singled out: the emphasis was put (even in the name itself) not on enterprises but on the property (the state's share of the property); the program of privatization envisaged the list of objects which were to be privatized during the year (depending on the current market situation) and the list of strategic objects prohibited for privatization (they can be privatized only on the basis of a federal law); a wider range of privatization methods was offered (through legalizing the sale of derivatives which had already happened); the benefits for the employees were still allowed (a 5% or 10% discount from the selling price of stocks) but could be revoked or could become more flexible, the value of the property ("property complexes") was to be calculated on the basis of their capital, balance sheet value and market price together; commercial tenders with investment conditions were introduced while the investment tenders were cancelled, the notion of "leasing with the right of redemption" was reintroduced but "at the market price."

Some observers associate the beginning of the third (after "voucher" and "cash") stages of privatization with the term "**individual project**." Although this term was not legalized in the new

law on privatization, the formal interest of the government in “individual projects” was reflected in Decision No. 363 of April 1, 1997, “On Procedures Governing the Realization of Individual Projects for Privatization of Federal Property” (supplemented by decision of the RF government No. 564 of May 12, 1997). According to this document, individual projects for privatizing federal property are complex measures aimed to privatize federal property being of special importance for the country at large, region, or industry; the decision stipulated pre-sale preparation of the property including services of financial advisers. However, the largest transactions and privatization practices at large taking place in 1997 through 2000 provide no evidence of radical innovations.

In 2000 privatization as an element of economic reforms becomes **less and less urgent**. It concerns both its system-forming role (the matter of current interest in the first half of 1990s), and the budgetary orientation of privatization sales (more or less successfully dominating over the second half of 1990s). The falling importance of privatization in the process of development of transitional economies manifested itself, for instance, via increasing activity of critics of the applied privatization models (not only the Russian model, but also the Czech coupon scheme, which had been a reference source for the West, were severely criticized).

From the point of view of further systemic transformations, privatization apparently became less important than the problem of corporate governance and of restructuring of privatized enterprises. As concerns the increase of budgetary revenues (since 1999 – the financing of budgetary deficit) the rationalization of use and the increase of effectiveness of managing state-owned property become the priority. The investment component of privatization transactions was traditionally close to zero. Moreover, due to various reasons many transactions, which included investment conditions, were subjected to investigations aimed to return blocks of shares in the public ownership.

The slowdown of the privatization process was related to many objective and subjective factors. The most substantial factor is the absent demand for the majority of “residual blocks of shares” on sale (due to either principal lack of interest to these economic objects, or due to the established formal and informal poles of corporate governance at individual enterprises). The objective dominant of continuing privatization sales was motives of establishing (completing the procedure of) control, typical for post-privatization period in all transitional economies. Unsolved problems of land plots, non-commissioned objects, mobilization capacities, large state-owned blocks of shares (being in fact managed by nobody) resulted in additional slowdown of the privatization process and lower amounts of completed transactions.

It shall be also noted that in regions there are two trends constraining the privatization process: on the one hand the decisions on privatization having been approved recently are not implemented, on the other hand regional authorities strive for control over a maximal number of regional enterprises, including those in federal ownership.

In 1997 and 1998 the emerging financial crisis became an objective negative factor also deteriorating the effectiveness of privatization transactions, which were crucial for the budget. Taking into account lower attraction of oil companies for investors in the unfavorable world business situation the possibility to implement a budget-oriented privatization policy was especially limited (at least until mid-1999).

The approval of new law “On Privatization of the State Property and the Guidelines for the Privatization of the Municipal Property in the Russian Federation” failed to spur privatization in 1998 and 1999. As the State Duma failed to approve the draft law “On Approval of the State Program for Privatization of State-Owned Property in the RF,” it also became a factor braking privatization.

It is also important that in 1999 revenues from privatization (Table 2.2) were for the first time excluded from budgetary revenues and listed among sources of financing of budgetary revenues for the first time. It permitted to avoid a tougher budgetary orientation and to make decisions on transactions with more regard to real business situation.

TABLE 2.2.

Privatization in 1995 through 1999

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|-----------------------------|----------------|-------------------------------|------------------------------|---|---|
| Number of privatized enterprises | 6000 | 5000 | 3000 | 2583 | 595 | - |
| Approved budget | 4,991 trillion ^a | 12,3 trillion | 6,525 trillion | 8,125 billion ^{c d} | 15 billion ^{cf} (total 18,5) | 18 billion ^c (total 23,7) |
| Actual revenues | 7,319 trillion | 1,532 trillion | 18, 654 trillion ^b | 14,005 billion ^e | 8,33 billion ^c (total 17,3) | 30 billion (total 56) |
| Dividends on blocks of shares in federal ownership | 115 billion | 118 billion | 270,7 billion | 574,6 million | 6,15 billion | Planned 3,5 billion |

^a - the approved budget was adjusted in December of 1995, 70.8 per cent of the actual revenues were derived at the expense of loans-for-shares auctions.

^b – including \$ 1.875 billion for shares in “Svyazinvest.”

^c – only for property sold.

^d – adjusted to Rub. 15 billion in April of 1998 (at the governmental level).

^e – including Rub. 12.5 billion for 2.5 per cent of shares in “Gazprom.”

^f – not included in budgetary revenues

Two latter considerations (the opportunity to approve lists of enterprises circumventing the State Duma and the freedom of financial maneuver with respect to concrete objects) lead to the appearance of 3 lists of potential objects for sales in 1999. The first list included some largest JSCs (LUKOIL, Gazprom, Aeroflot); the second list included blocks of shares in prospective enterprises the sale of which could make a substantial contribution to the budget (about 60 enterprises, included those in oil industry and metallurgy), the third list included about 1200 residual blocks of shares in

small and medium-sized enterprises for sales via regional structures of the Fund for Federal Property (*Russ. abbr.* RFFI) structures.

In 1999 the actual aggregate privatization revenues made Rub. 17.3 billion (planned revenues were at Rub. 18.5 billion). The revenues derived from sales of enterprises (shares) were almost two times less than planned: Rub. 8.33 billion as compared with Rub. 15 billion planned for 1999. In formal terms this amount was so considerably less because the government refused to sell a number of blocks of shares (25 per cent plus 1 share in “Rosneft,” 19.68 per cent of shares in “Slavneft,” small blocks of shares in “Gazprom” and “United Energy Systems of Russia (UES),” 25 per cent minus 2 shares in “Svyazinvest”). The failed sales may be postponed until year 2000.

At the end, the funds were obtained due to **several successful individual sales** (as in previous years).

On October 29, 1999, the RF government (decision No. 1423-r) approved a commercial tender including investment conditions for the sale of 9 per cent of shares in LUKOIL. The investment shall be utilized for “elaboration and implementation of a system aimed to minimize unplanned losses of the subsidiary enterprises.” The initial price of the block of shares was set at \$ 200 million, the amount of investment should be \$ 240 420 509. As a result, the aggregate initial price per share equaled \$ 6.55 (at that time RTS offered the shares at \$ 7.5). Traditionally, the tender outcome was that a Cyprus-based offshore company won offering \$ 5 thousand above the initial price (since the only competitor – also a Cyprus-based offshore company made a mistake by offering only \$ 1 thousand above the starting price). The actual revenue made \$ 3 per share.

The outcome was the almost 100 per cent evidence that emitters continued their strategy to buy back their own shares (or sell them to American partners). The shares remaining in the federal ownership (16.6 per cent) may be sold yet in 2000 (it is possible that the “golden share” will be retained). Some plans to sell these shares at foreign stock exchanges were under discussion.

One per cent of the company’s shares (at the aggregate initial price of \$ 46 million, or Rub. 170 per share, the market price being at Rub. 250 per share) was offered for the sale at a special auction for portfolio investors taking place on November 29. Twenty nine bidders (individuals and legal persons) purchased 0.647 per cent of the authorized capital for Rub. 820.8 million.

Another largest transaction of 1999 was the sale of 49.806 per cent of shares in TNK (in compliance with RF President Decree No. 1413). The initial price was set at \$ 66.7 million, while the investment program was priced at \$ 185.256 million (the aggregate price per share made \$ 0.16, the market price was not available). The set of requirements a potential buyer should comply with (including the purchase of 55.5 per cent of shares in the Ryazan Oil-Processing Company) permits to presume that this transaction was specially designed (similarly to the LUKOIL case) for a concrete buyer connected with private owners of the controlling interest in TNK.

It was a natural course of events, as the specifics of the Russian market discourage strategic (and portfolio) investors from purchase of non-controlling interest in toughly controlled companies. It is also well-known that TNK faced problems directly affecting the cost of the holding: the necessity of large investment in the Samotlor oil field (3/4 of current extraction), the loss of majority control over a number of subsidiaries (which failed to pay dividends due to financial problems and had to convert preferred stocks in voting stocks), etc. In this situation, the current shareholders may try to bargain with the state for the minimization of the cost of the privatization transaction. However, in this situation the state has the right to reject the imposed conditions and to postpone the transaction.

The final price of the block of shares (as on December 22, 1999) made about \$ 90 million. The company representing TNK shareholders won at the auction. The increased price of the block of shares may be explained by the unexpected fact that SIDANKO participated in the auction aiming to radically stop the TNK aggression. It is an interesting fact that the Ministry for Anti-Monopoly Policy refused to give the Interros group representative the permission to purchase the block of shares. This move may be interpreted as the use of an effective tool of corporate struggle.

Nonetheless, other revenues from sales of state-owned property were considerably above the planned level (Rub. 8.99 billion vs. Rub. 3.5 billion). Thus, according to the federal budget for 1999 dividends on shares in state-owned property should be at Rub. 1.5 billion, in fact they made Rub. 6.15 billion. Revenues from lease of federal real estate made Rub. 2.165 billion (Rub. 2 billion were planned). Revenues from the RF property abroad made Rub. 315 million (Rub. 200 million were planned). At the same time, it is obvious that the success in the area of dividends was related to the fact that it was possible to purposely squeeze largest companies. In particular, in 1999 the basis of this source was expanded: 600 joint stock companies paid dividends to the state as compared with 200 joint stock companies in 1998. It was much more difficult to rationalize revenues from federal property in Russia and abroad due to its scattering and difficulties hindering the finding of real beneficiaries.

2.6. Some Recommendations. The Problem of Nationalization (Re-Privatization)

It seems that the “Concept of Managing State-Owned Property and of Privatization in the Russian Federation” (approved by the RF Government Decision No 1024 of September 9, 1999) may be considered as a program document for a few next years. Moreover, it is highly probable that this document will be a guideline until 2010 (both because the most probable candidate for the Presidency approves it, and because it is obviously impossible to make radical amendments to it). General aims and principles of privatization are of traditionally declarative nature; however, new approaches to sales organization deserve attention, in particular:

- a differentiated approach to the privatization of enterprises depending on their liquidity (a) highly liquid enterprises shall be privatized taking into account the balance between the amount of

attracted investment and funds due to the budget basing on the real price evaluation maximally close to world levels; (b) enterprises having liquidity problems may be sold to “effective owners” at minimal prices upon submission of business plans and implementation of measures permitting to control the system of indicators of enterprises’ operations;

- in case highly liquid blocks of shares are privatized aiming at substantial budgetary revenues, the remuneration of financial advisers shall depend on the amount of such revenues;

- creation of a broader range of privatization instruments (a) issuance of derivative securities backed by state-owned property permitting the placement on foreign security markets (deferred right to purchase state-owned shares); (b) purchase and sale of shares at exchanges and off-board aimed at optimization of state participation; (c) sales resulting from direct negotiations with investors, including cases when auctions (tenders) were declared void (in such cases the price of the object shall not be less than the starting price at the void auction); (d) sales of state-owned property payable on installment plans guaranteed by banks;

- decisions on privatization shall be taken on the basis of long-term development plans for enterprises submitted by potential investors and privatization agreements minutely regulating investors’ obligations;

- pre-sale preparation of enterprises including services of financial advisers, auditors, surveyors, legal advisers, business advisers;

- commercial tenders including social conditions;

- determination of the optimal number of unitary enterprises (approximately 1500 to 2000 as compared with 13786 existing in 1999) and their conversion into joint-stock companies (excluding socially important cases);

- sale of not-yet-commissioned buildings and structures unused for state purposes, mainly for creation of new productional capacities (on the terms that new owners assume obligations in accordance with the system of controlled indicators, which is under development);

- determination of expediency of creation of vertically integrated industrial structures using state-owned property on trust;

- sale of property (in case investment conditions permit) mainly for industries with fast return from investment (investment programs shall be so compressed in time as technology permits).

Many of the aforementioned novations require the amendment of the law on privatization (for instance, the Federal Property Fund’s idea of selling 9 per cent of shares in “LUKOIL” via securities exchanges, direct sales); therefore these methods may remain unused in 2000. It is also difficult to issue derivative securities backed by state-owned property in legal terms (budget shall be amended, collisions between the law on privatization and law “On Specifics of Issuance and Circulation of State and Municipal Securities,” etc. shall be settled).

The problem of unsold minor blocks of shares (below 25 per cent) persists both in the area of privatization, and state management. Although in 1997 and 1998 the intention to sell them off practically for free was voiced, their number remains considerable. Presumably, in 2000 the following decisions concerning these blocks of shares may be taken:

- they may be included in charter capital of other joint stock companies;
- state-owned blocks of shares may be enlarged in order to obtain blocking interest by including state-owned property in charter capital of companies, or by purchasing shares in those companies on secondary markets aiming at the sale of such blocks of shares to strategic investors;
- transfer of state-owned blocks of shares to issuers or subjects of the Russian Federation (municipal entities) as a compensation for budgetary financing on the condition that wage arrears would be paid off, there would be no new wage and budgetary (of all levels) arrears, and other parameters would be met;
- state-owned blocks of shares may be sold to employees at lower prices, including cases of creation of “peoples’ enterprises.”

There persist many problems related to privatization. First of all, these problems may trouble the investors who are real outsiders, or “bona fide purchasers.”

The most acute is the danger of re-privatization in Russia at large as a factor deteriorating the investment attractiveness of the country (in particular, in 1999 as per unofficial appraisal about 40 per cent of all privatized enterprises were privatized with violation of the law), disregarding of the exact term. It may be nationalization *per se*, or de-privatization (i.e. the return of privatized property to the state ownership), or re-privatization (de-privatization followed by “right” privatization transactions). The essence of the problem is that nationalization in various forms has been already underway in Russia for a long time:

- at the level of ideology and political struggle (law No. 74-FZ of May 7, 1998 concerning the UES of Russia, the populist versions of the draft law on nationalization in 1999 elaborated at the State Duma);
- the revision of privatization transactions (RFFI and General Prosecutor Office intended to review the results of 17 per cent of tenders including investment conditions, which took place before July 31 of 1997¹⁴, the return of blocks of shares in two ports in the Leningrad Region in the state ownership, plans to re-privatize about 50 enterprises of the Transportation Ministry, the court ruling concerning the de-privatization of the Stavropol Joint Stock Aircraft Company, etc.).

¹⁴ It is no secret that investment tenders were a most flawed privatization method. In the overwhelming majority of cases investment programs were not carried out. In 1992 through 1997 1084 blocks of shares were sold at investment tenders, 328 of them were returned in the state ownership by courts. The problem is that provisions of the new privatization law of 1997 may be applied to transactions having place earlier. Certainly, there is a possibility of collusions to resell blocks of shares immediately (in order to avoid the implementation of investment programs); however, the unconditional return of the blocks of shares is impossible due to the persisting problem of *bona fide* purchasers.

- the return of blocks of shares to state structures due to debts (in 1999 the most noticeable cases were that of KamAZ (in September 26.7 per cent of shares were transferred to the federal ownership, while 27 per cent of shares were transferred to Tatarstan) and AvtoVAZ (in December the controlling interest in the company was transferred to the state ownership as a collateral for the debt restructuring program);

- the transfer of state-owned blocks of shares to newly formed holdings (including state-owned ones). While state-owned blocks of shares in established enterprises may either be not managed at all, or *de facto* privatized for voting purposes, state agencies enhance their influence either in formal or real terms on newly created or merged structures. This feature is especially characteristic of enterprises within the military and industrial complex (MIC). The attitude toward the creation of “Gosneft” is an example of the lack of consistent state policy in this area;

- managers may use de-privatization as a tool of corporate struggle (the Lomonosov Porcelain Factory scandal of 1999). Some voluntary attempts to return privatized JSCs in the state ownership were also registered;

- regional authorities actively seek control over budget-forming enterprises (often via the appointment of external managers). A separate aspect of the problem is that in 1998 and 1999 there started the process of return of federal property, earlier transferred in regional ownership, via courts (for instance, 40 per cent of shares in Irkutskenergo, the federally owned blocks of shares in 4 enterprises in the Krasnoyarsk Area the regional authorities failed to privatize, etc.).

Many forms of concealed nationalization are quite justified. Moreover, it is unlikely that any decisions about the large-scale nationalization will be taken at the highest official level, since the government is interested in the restructuring foreign debts on most favorable terms, new borrowings from international organizations, and sales of new blocks of shares.

However, the general vagueness of the state policy in this sphere is a key factor hindering the creation of favorable investment image of Russia. At present, in order to alleviate the problem at least two decisions shall be taken: first, the tough and well-grounded declaration of the intent on the part of the government; second, the approval of a law on nationalization stipulating procedures of compensating investors and protecting the interests of *bona fide* purchasers, which would take into account the prior multiple resales.

It is also necessary to secure a double approach to the evaluation of privatization transactions as concerns offenses committed in their course: (1) indefinite term of prosecution (including criminal prosecution) for offenses committed by officers and their counteragents (if found out and proved); (2) to ensure the absolute principle of “inviolability” of *bona fide* purchasers’ property (that being adequate to the state non-interference in the existing structure of ownership). The only permissible alternative may be an absolute compensation of losses suffered by a *bona fide* purchaser.

The informally adopted 10 year period of claim limitation for privatization transactions is a separate problem (basing on Article 181 of the RF Civil Code; it seems it is necessary to diminish and fix in legal terms the period for claims on the application of consequences of invalidity of a null and void transaction);

Among the most acute problems the following shall be also mentioned:

- the problem of transparency of a majority of privatization transactions persists (i.e. outsiders do not understand the terms of the investment process);

- sales of minority (up to 25 per cent) blocks of shares (especially to foreign investors) often result in small degree of influence on companies' decision making;

- discrimination of insiders and outsiders persists as regards the terms of transactions (for instance, the terms of sale of 9 per cent of shares in "LUKOIL" in 1999 were obviously discriminatory in regard of outsiders, as taking into account the investment, they had to pay \$ 6 per share as compared with \$ 3 per share for insiders. The sale of TNK shares and many other transactions of previous years may be interpreted in the same way);

- discrimination of insiders and outsiders persists as concerns the degree of prosecution for the failure to meet the terms of privatization transactions;

- the problems related to the duality of approving decisions on privatization and managing state-owned property have persisted since 1991, when the State Property Committee and the Fund for Federal Property were created. Thus, the RF State Property Ministry tried to find new areas for its activities in 1999 and 2000 (by initiating projects, which would allow it to control the Federal Agency for Financial Recovery, the Federal Commission for Securities, evaluation activities, etc.). The Fund of Federal Property strives for the status of a state investment bank having the right to operate on the securities market, although its necessity is not clearly justified.

The most important prerequisite of determining the further goals of privatization is the understanding of the fact that at present Russia lacks objects of any new integral privatization model. Therefore, only the formation of a new privatization concept, which would be oriented towards comprehensive inclusion of various aspects (settlement of problems) of the functioning of enterprises (the majority of which had been incorporated and fully (or partly) privatized) may be discussed.

It also means that due to the fact that there is a considerable differentiation across existing objects in the process of privatization *per se* various approaches (and their combinations), the overwhelming majority of which already exist in the RF legislation, shall be applied.

In reality, the government may undertake only a very limited set of measures with respect to privatization::

- direct negotiations with potential strategic purchasers of shares in largest corporations, which remain in the state ownership to ensure budgetary revenues;

- sharp toughening of the administrative regime governing the management of state-owned property (blocks of shares, real estate) in order to demonstrate the will to fight against abuses and to “improve the management” of the state property;

- changes in organizational arrangements in order to demonstrate that the elaboration of a new concept of privatization and management is underway.

It is also necessary to work out new approaches in the sphere of managing state property. The following complex of measures shall be implemented in the long-term perspective:

- to make up an inventory of objects;

- to reduce their number by different means, at the same time each of these objects shall be assigned a specific task in the interests of the state;

- to work out a system permitting to invite managers from the private sector basing on objective criteria varying depending on the importance of the object;

- to introduce comprehensive criteria in order to implement these processes;

- to work out a system ensuring the transparency and control over managers' activities;

- to elaborate a system of measures aimed to render managers more responsible for their actions;

- to regulate the whole system of administering legal acts.

From our point of view, it is necessary to maximize the participation of non-residents, while selecting managers and working out a system ensuring transparency and control over managers' activities. Even at the conceptual level, it would be a factor facilitating the recovery of the investment climate of the Russian economy.

A tougher state control and regulation of the state sector of the economy are also necessary; however, this shall not result in the increasing number of state-owned objects. Moreover, the reduction of their number shall be a fundamental prerequisite for higher efficiency of the management of the state property; otherwise the huge amount of uncontrolled state-owned property will result in the elements of management acquiring the selective and spontaneous character, as was demonstrated for all economies in transition in recent years.

The effort shall be focused on two key goals of state policy in the sphere of managing the state sector of the economy:

- the optimization of ownership structure (from the point of view of both economic proportions on the national scale, and at micro-level) aimed at securing stable prerequisites of economic growth;

- the maximization of budgetary revenues on the basis of more efficient management of the state property.

The same may be said about the priorities of the federal executive authorities; they shall concentrate on achieving three key targets:

- to optimize the number of managed objects;
- to optimize administrative costs;
- to secure and protect the rights of the state as a participant (shareholder) of commercial and non-commercial organizations.

The optimization of the number of managed objects first of all requires to group enterprises (other than state-owned enterprises in the narrow sense) depending on the specifics of sales:

- ten to fifteen largest enterprises of strategic importance from the standpoint of Russian national interests shall be singled out, this list shall be formalized in legal terms (it does not mean that sales of state-owned blocks of shares in these enterprises shall be prohibited; however, the selling regimes and specifics of circulation of their securities shall be taken into account);

- 100 to 150 enterprises whose securities (existing or issued in the course of potential privatization) are most liquid shall be singled out. Privatization of all or a part of state-owned shares in such enterprises may be carried out according to individually designed schemes (projects) aimed to the maximum budgetary effect;

- all other enterprises the state has a share in shall be sold under simplified procedures, or the shares shall be transferred to the private sector on trust.

It shall be stipulated that the key requirement applied to the sales of shares in this last group of enterprises are to be carried out in a shortest time possible independent of the amount of revenues. In the process of selling these shares it is possible to achieve a social effect (for instance, it may be stipulated that in case shares are not sold at two public tenders, they shall be sold directly to the employees at a nominal price); this requirement may exert certain pressure upon enterprises' managers (a potential budgetary effect). A mechanism creating incentives for committees or funds responsible for the sale to realize shares in a shortest possible time shall be elaborated. At the same time, it is necessary to prohibit the transfer of such shares in municipal ownership without the requirement to subsequently sell the shares.

The administering blocks of shares involves the settlement of an acute problem of their classification; this classification shall become the basis for the elaboration of various regulatory controls: by liquidity (with respective differences in potential budgetary revenues); by industries; by goals the state pursues (strategic enterprises, social programs, natural monopolies, technology-intensive projects, etc.); by financial standing; by the possibility of state influence (the size of the block of shares), etc.

It would be expedient to divide the enterprises whose shares remain in the state ownership in five types:

- regional and national natural monopolies, state-owned blocks of shares in such enterprises shall be managed by boards of state representatives;

- JSCs dominating on individual markets, such JSCs shall be subjected to restructuring aimed to form competitive environment (the state retains the controlling interest or introduces the «golden share»);

- JSCs the shares in which may be transferred to holdings or other associations of enterprises (the «golden share» in such JSCs shall be retained);

- JSCs the shares in which may be transferred for management by RF subjects;

- all other JSCs, the shares in these JSCs shall be transferred in trust via tenders.

Yet another key problem is the optimization of administrative costs. The degree of efficiency in this sphere shall be determined proceeding from the criterion of maximal economy of resources.

The protection of the interests of the state in the capacity of a shareholder, from our point of view, requires some organizational rearrangements of the structure (hierarchy) of the federal executive agencies:

- The «Ministry for State Property (*Russ. abbr.* MGI) – RFFI» traditional dualism shall be liquidated; a Government-controlled single state holding with regional agencies (subsidiaries) shall be created on the base of these two agencies. This structure shall represent the interests of the owner, at the same time among its key functions shall be the evaluation of management projects and the operative control over the implementation of these projects by corporations shares in which shall remain in the state ownership for protracted periods of time;

- An Independent Agency (Commission, Supervisory Council) shall be created in order to control the functioning of the above mentioned holding. The Agency shall be composed of representatives of the Federal Assembly, prosecutors' offices, and experts on the basis of parity and paid participation. This agency shall have the right to inspect the activities of the state holding, corporations, and managers of state-owned blocks of shares via special inspectors employed by the Agency, and/or auditing companies;

- Other executive agencies shall be prohibited to represent state interests in corporations by a law (also stipulating the transfer of respective functions to the said holding);

- The number of objects shall be reduced;

- A model schedule of measures concerning concrete objects of management shall be elaborated, the schedules shall include comprehensive criteria governing the choice of options;

- A system of incentives (bonuses for the launch of a project) and sanctions (tough administrative and criminal punishments aimed at the prevention of corruption at all stages of projects) for the decision-makers representing the authorities shall be created.

Chapter 3. Privatization in Canada and Lessons for Russia

3.1. Ownership and the Canadian federal state

Federal and provincial responsibilities

Ownership concepts in Canada are strongly rooted in English common law and the French civil code. Ownership confers a regulated right to exploit property and to appropriate its fruits, whether crops from a field, dividends from a corporation or payments for the use of intellectual property. It is the constraints on these rights that express the concrete form of public policy and that are of most interest in this section. There is an enormous literature on these topics. This description is necessarily partial.

Though rooted in older legal traditions, the operation of Canadian ownership law has been strongly affected by the provisions of the Constitution Act, 1867, an important constitutional document. The 1867 Act allocated to the provincial governments responsibility for civil and property rights within the province and their administration. Provinces have exclusive jurisdiction over the development of natural resources, and indeed are the owners of land and resource rights not explicitly allocated to private parties. These have been and still are enormous powers in an economy as resource-dependent as Canada's has been. In these areas, both the law and the juridical processes are under provincial control.

This accommodation to the political realities of the time threatened the growth of multiple immiscible and inconsistent legal systems, with potentially severe consequences for the creation of an integrated national economy. However, several factors mitigated against such a disastrous result. Important economic sectors like banking and transportation were reserved to the federal government, as was the criminal law. Sensible provincial legislators actively worked to avoid incoherent results. Most deferred to the legal advice emanating from the imperial power of the time, with the result that English law, language and precedent were broadly incorporated into Canadian provincial (and federal) statutes. The courts deferred to UK law and precedent. In Québec, though French civil code traditions persisted in the law, the procedures of the judiciary followed the English model. Courts in one province began deferring to judgments in other provinces. In the result, Canada has a robust and uniform system of property law, based in statute and common law and interpreted through, in effect, centuries of legal precedent. And it has developed this system in a federal state in which provinces have been historically jealous of their perquisites and autonomy.

The example of securities law

Securities law offers a good example of functional uniformity and provincial responsibility. Each of the ten provinces (and, in principle, the three northern territories) has a regulatory body that

oversees conduct and practice in securities markets. Unlike the US, which has a single Securities and Exchange Commission at the federal level, Canada, with a tenth the population, has thirteen. A corporation wishing to file a prospectus must in principle do so in thirteen jurisdictions (and two languages), potentially meeting different legal and procedural requirements in each. In practice, and in part to pre-empt occasional rumblings from Ottawa about the desirability of a national securities commission, the provinces and territories have set up a ‘virtual’ national regulator through cooperative action. A national body, the Canadian Securities Administrators (CSA), groups them together for the purposes of common rule-making and harmonization, and has evolved a system where, depending on the locus and nature of the issuer, one regulator will take the lead and act for all. The CSA also represents Canada on international securities regulatory issues. Regulatory fine-tuning more or less keeps up with the changes sweeping markets in recent years. Current concerns include rules forcing broader disclosure of all material facts, and developing rules to correct potential abuses in the burgeoning mutual fund industry¹⁵. In the end, almost all rules have a consumer or investor protection basis. The better they are seen to be, the greater is consumer confidence and the more smoothly the capital markets run.

Federal powers

General provincial primacy gives way to federal oversight when a federal constitutional jurisdiction is involved or a company is registered under the *Canada Business Corporations Act (CBCA)* rather than a provincial act. In the latter case, the *CBCA* regulates certain areas of conduct such as take-over bids, proxy solicitations and insider trading. Federal constitutional jurisdictions include certain sectors named *ab initio*, such as banks, insurance companies, and railroads, as well as others subsequently declared to be of national significance. Nuclear energy is a notable example. There are also certain economic functions that the *Constitution Act, 1867* somewhat whimsically assigned to the national level. Bankruptcy is one such. Accordingly there are federal laws governing the distribution of assets of insolvent companies (the *Bankruptcy and Insolvency Act* and special acts regulating the winding-up of financial institutions), intellectual property (*Patent Act* and others), and spectrum management (*Radio Communication Act*), to choose three examples. Each has spawned a regulatory body at arm’s length from the government of the day, the most important of which, because of the centrality of financial institutions to the functioning of the whole economy, are the Office of the Supervisor of Financial Institutions (OSFI) and the Bank of Canada. In this

¹⁵ The former is stimulated in part by developments in the US, and the latter by occasional shady if not illegal practices by wealth management companies. The Ontario Securities Commission currently has a case against the former president of a mutual fund company for manually pricing certain securities in the calculation of daily net asset values per share. The aggregate deviations from market closing values are alleged to amount to about \$300,000 in a \$3 billion portfolio over six months or so. The case is ambiguous because there is no specific prohibition against manually pricing liquid securities, and will doubtless spur further rule-making. A more serious case, involving “high-closing,” a method of manipulating the end-of-day prices used for record keeping and which is specifically barred, was decided against the managers of RT Capital, a subsidiary of one of the largest banks in the country. In this case, the cost to

respect another *de facto* specialization of the roles of the two senior levels of government has become crystallized into law. OSFI and the Bank concern themselves principally with the soundness of the banking system, while provincial regulators concentrate on the conduct and market performance of the individuals and firms in the industry.

There is one explicit federal power emanating from the *Constitution Act, 1867* that is of great importance, namely the general power to regulate “trade and commerce.” This is generally taken to mean all those matters of trade and commerce not explicitly allocated to the provinces, and includes all matters of interprovincial and international trade. Increasingly, the march of technology means that provincial jurisdiction is restricted to matters of purely local interest.

Finally, the Canadian constitution grants residual powers to the federal government. Those things not explicitly allocated to the provinces in 1867, including subjects like telecommunications and air travel not then invented, have fallen into federal domain.

The overall picture is one of a country that decided a century and a half ago to place restrictions on the power of a potentially over-mighty central government through an allocation of powers in a constitution that has proved remarkably resistant to formal change but resilient in practice. Both technology and political factors have combined to create a somewhat more mixed and nuanced system than a strict reading of constitutional law would dictate. The federal government, for example, has long been frustrated by provincial moves to restrict free interprovincial trade through the erection of barriers such as buy-local rules, residency requirements for eligibility for government contracts, labour certification rules, and the like. It has not, so far, used its undoubted constitutional power to over-rule provincial protectionism, preferring suasion to legal force. In other fields, where provincial particularism has clashed with a national interest in rights or services to be shared by all citizens, such as health care or post-secondary education, the federal government has made transfer payments to the provinces contingent on good behaviour. Sometimes these behavioural standards are embodied in law, as in the case of the *Canada Health Act*.

Dispute settlement

Disputes over property rights are mostly settled in provincial courts, whose judges are appointed by the provincial or federal governments, depending on the level of the court. Appeals from these courts or from specialized administrative bodies go in the first instance to provincial courts of appeal. Thereafter, with permission, they may be appealed to the Supreme Court of Canada. Likewise cases arising from federal administrative bodies or from the Federal Court of Canada may be appealed to the Supreme Court. Thus there is another mechanism for the

reputation and in lost accounts was much greater than the aggregate of several million dollars in fines paid by the firm and the errant managers.

harmonization of provincial and federal laws, although in the nature of courts it operates rather slowly.

Courts are cumbersome, time-consuming, uncertain of result, and expensive. There is a strong incentive for parties having civil disputes of any kind to seek alternative dispute resolution. Accordingly many contracts specify that disputes are to be resolved – swiftly and often without appeal – by arbitrators operating under the relevant provincial or federal law, with the parties paying their own expenses and sharing the costs of the arbitrators, who tend to be retired administrative or property law judges or distinguished counsel.

The peculiar problem of land

This report is mostly concerned with the privatization of corporate industrial assets owned by the state. One of the virtues of mass transfer (as opposed to block transfers to existing large industrial groups) is the expansion of the opportunities open to households to increase their private savings. In this respect bank accounts, insurance policies, mutual funds, home ownership, and – especially but not only for rural people – ownership of agricultural and recreational land are all important vectors. In the case of Russia, perhaps nothing is more important in the coming years than putting agriculture on a path of increasing productivity. Land privatization may become an even sharper economic and social issue in the near future.

Landed assets have some characteristics not found in marketable securities. They are highly specific and thus relatively illiquid. Deep financial intermediation capacity is needed if people of modest means are to acquire comparatively expensive fixed assets. And there is an empirical tendency, noted in bourgeois societies everywhere, for the potential income attributable to landed assets to be rapidly capitalized into land values. Land values, however, are “sticky,” in that once risen, they tend to deflate slowly even when, say, declining prices for agricultural products may indicate a lower value. It is thus characteristic for farmers in market economies to have, relative to the rest of the population, a lot more wealth than current income, a phenomenon not without political consequences.

3.2. History of privatization in Canada

“A nation unaware”

Privatization in Canada followed the general historical pattern set out in the Chapter 2. The postwar consensus, based on the successful command mobilization of the Canadian economy during the war and to a degree in the immediately preceding period, when desperate measures were introduced to fight the effect of the Great Depression, had favoured a vigorous public sector. Railways, airlines, the international grain trade, radio and later television broadcasting, roads, hospitals and indeed most of health care, electricity, water and sewage treatment, urban transit – all were sectors dominated by great public enterprises in the period 1935-1980, even where there were

private competitors, and even when the industries in question had been started by private investors. Without much conscious thought or planning, Canada had become a much more mixed economy than most had intended, or than the range of public discourse in the Great Republic to the south would have allowed. The high water mark came in the later part of the period and included the effective nationalization of the payment mechanism for health care after 1962, the actual nationalization of power utilities in British Columbia (1961) and Québec (1963) which built on the longstanding reputation of Ontario Hydro (1904), and, following the first world oil crisis of 1973, the creation of Canada's own "window on the industry," Petro Canada.

Other industrial enterprises were not so much created by government with purpose aforethought as accidents that fell into government hands through private sector failure. Typically, these were large firms whose prestige or regional employment were thought important and were "too big to fail." Thus, for example, Canadair and de Havilland (aircraft) and the Trenton Works (heavy machinery) became wards of the federal government, while such diverse enterprises as Sydney Steel (Nova Scotia), Gainers (pork packing, Alberta) and Algoma Steel (Ontario) fell into the ownership of their respective provincial governments when they became insolvent.

The peak period of public enterprise coincided with deep suspicion about the consequences of unbridled foreign direct investment, especially from the United States, a fear that led to the enactment of the *Foreign Investment Review Act (FIRA)* in 1973. FIRA required potential investors to demonstrate that their intended investments were of net benefit to Canada, and imposed performance targets in terms of employment, research and development investment, and exports. Certain sectors, like newspapers and other media, banks, and national transportation companies, were off limits entirely or severely restricted in the name of cultural autonomy. An interesting book, published around the time of this apotheosis by a Canadian social democrat, celebrated this history (Hardin, 1974).

Early cases: BCRIC

By the late 1970s the complacent consensus was beginning to wear thin. Canadian economic performance after 1973 was poor, in part because of domestic policies seen in hindsight to have been wrong-headed. One substantial sale, that of the Alberta Energy Corporation and its extensive network of gas collection pipelines, was undertaken by the Conservative government of that province in 1975. Federally, however, the Trudeau Liberals decided to decouple Canada from world oil prices while running ever larger fiscal deficits, with the result that inflation got seriously out of hand at the same time as Canadian industry was spared the discipline of productivity improvement in face of worsening input costs. The result was a peculiar echo of the "stagflation" that had bedeviled the UK economy since the 1960s. The parallel experience led certain political parties to take note of the radical moves being taken by the new British Prime Minister, Mrs. Thatcher. Only a few months passed since her accession before the right-wing Premier of British

Columbia, William Bennett, introduced legislation to privatize the B.C. Resources Investment Corporation BCRIC, pronounced, not inappropriately, “brick.”

BCRIC was an ill-designed conglomerate, a collection of timber, coal and petroleum assets that had fallen into provincial ownership through a variety of historical accidents. It was the populist Mr. Bennett’s idea to encourage “people’s capitalism” in this traditionally left-wing province by giving all residents five \$5 shares in the company – “MP1” in the language of the Interim Report. Other shares would be made available for purchase¹⁶. Over two million British Columbians applied for free shares, and seven percent of the population bought shares in the second distribution, raising \$487 million for the government. Individual or affiliated group ownership was capped at one percent in the name of “peoples’ capitalism.” Critics on the left ridiculed the share giveaway as giving people what they already owned, but there was popular enthusiasm. The stock rose 40 percent in subsequent months, peaking at \$7 (Osahi, 1980).

This initial experiment had five unfortunate consequences. One, the initial method of distribution produced cash for neither the donor provincial government nor the corporation, both of which had substantial appetites for investment. Two, the irrelevance of any cash consideration meant that the authorities paid no attention to restructuring the enterprise for maximum return or to timing of the sale with respect to the stage of the business cycle. Three, distribution in such small packages meant that the transaction costs were comparatively enormous¹⁷. Four, the absence of any dominant shareholder meant that there was no check on management, who were essentially rendered unaccountable to anyone. Five, this 1979 privatization occurred just before a serious recession, during which the prices of the commodities produced by the company fell to record lows, accompanied by the share values. In desperation the government lifted the limit on ownership to three percent, but to no avail. The new shareholders were stuck with share certificates which are now worth a few cents each as collectors’ items. BCRIC eventually failed as a company, but its pieces were bought at depressed prices by other fully private companies and have continued in operation.

As an object lesson in winning the hearts and minds of nascent capitalists, BCRIC was a resounding failure. It spoiled the market for privatization for several years¹⁸. Nevertheless, the situation was much simpler than that faced by authorities in transitional economies. In BC and all over Canada, there were mature, supple legal and financial systems for dealing with private property. BCRIC was precipitated into a vigorously competitive environment. Expectations regarding the behaviour of government, investors, intermediaries and the like were well formed and

¹⁶ Hardin (1988). This means of privatization is almost unique in the West. In some ways it is similar to stock/voucher distribution schemes in eastern Europe, notably in the Czech Republic.

¹⁷ The cost of mailing dividends to two million shareholders considerably exceeded the value of the dividend. The subsequent performance of the company, however, rendered this consideration irrelevant.

¹⁸ Hardin (1988). Later commentators cite similar problems ensuing from poorly designed privatizations early in the Russian transition period (Letenko and Lvov, 1998).

not seriously at odds with reality. Restitution was not an issue¹⁹. Likewise, the company was not responsible for social infrastructure or programs that were not the normal responsibility of private enterprises. Sporadic corruption has bedeviled BC governments, but did not occur in this case²⁰. Public opinion at the time tended to see the BCRIC story as a good idea badly executed rather than as a fundamental judgment on the direction of public policy.

The Mulroney years: 1984-93

Not until the election of the Progressive Conservatives under Brian Mulroney in 1984 was there a sustained attempt at privatization at the federal level. In addition to a mild ideological predisposition to private enterprise, the government was impelled to take a number of serious actions to control a series of annual deficits and a spiraling national debt that, in the beginning, was the legacy of the Trudeau Liberals. One measure was the setting up of a Cabinet committee and a small group of dedicated officials to review the government's commercial and industrial holdings and to privatize them where possible. An early result was the passage of legislation in the form of amendments to the *Financial Administration Act* that formalized how the government would operate and render accountable its corporate holdings. A joint section of the Treasury Board Secretariat (TBS) and Finance was created to act, in effect, as the holding company for Crown corporations on behalf of the government of Canada. Annual business plans must now be submitted, including forecasts of shareholder capital and credit requirements, as well as profits and dividends. The presence of the former and the absence of the latter give rise to probing and uncomfortable queries to corporate managements.

An early – and easy – success, notable for its conflation of privatization with the growing confidence and autonomy of Canada's native peoples, was the 1985 sale of the Northern Transportation Company Limited by the federal government to a company controlled by the Inuvialuit Regional Corporation, a company set up to manage the assets granted in settlement of land claims in the Mackenzie River delta. NTCL operates barges down the river from road heads not far from the territorial southern boundary, as well as heavy trucks on winter roads, and was a natural for devolution from distant Ottawa to the people who depended on it for supply. It has been a commercial success ever since.

The Tories were not dogmatic on the means by which Crown corporations became private. From the beginning, they engaged investment bankers and experienced law firms. The advice they received was highly pragmatic, attuned to the particular circumstances of each transaction, and oriented to maximizing government receipts subject to a minimal number of policy constraints. The

¹⁹ The claims of the native peoples regarding compensation for the illegal takings of their land and resources by the invading European settlers is another story (Annex 1). These claims did not impinge on the BCRIC privatization.

²⁰ Premier Bennett was later prohibited from trading securities on any Canadian exchange after the BC Securities Commission concluded that he had improperly sold, on insider information, several million dollars worth of stock in an unrelated forest company. A successor government of the moderate Left has been implicated in fund-raising scandals, and in the use of Crown corporation assets for the private gain of officials appointed by the government. (Swain, 1996)

certification of price and process optimality by outside bankers, no matter how well compensated, also had the virtue of providing political cover. In consequence, negotiated sales, qualified auctions, public offerings, and preferences to established players (including domestic firms and native organizations) have all been used from time to time. Political controversy has rarely outlived the period of the transaction.

The rise of Bombardier

A story illustrating the importance of good luck over good management is the fate of the moribund aircraft firms, de Havilland and Canadair, which were taken as failing enterprises into federal ownership in 1974 and 1976 respectively from foreign owners who could not make them profitable. Both had distinguished accomplishments during World War II, and in the aftermath Canadair produced the first commercial passenger jet aircraft in the world as well as the F-86 jet fighter. De Havilland was an early partner with Douglas on the DC-9 but could not sustain the enormous investment requirements. The limitations of national market size and the enormous investment resources needed to compete in the rapidly consolidating aircraft industry of the 1950s and 1960s inexorably marginalized the two companies. For the same reason they could not access foreign markets – national pride in local champions, dressed up in part with spurious but powerful national security arguments – the government of the day could not contemplate their closure²¹. Once in government ownership, however, the hemorrhage continued. The large investment requirements could not be met from ordinary budgets, so the products became ever more obsolescent, requiring in turn that government shoulder ever deeper “incentives” to persuade buyers to purchase. The decade of public ownership of Canadair alone cost \$3.35 billion in unrecoverable subsidies. By the early 1980s the only thing that sustained these firms in being was the stubborn unwillingness of the Liberals to admit failure.

In the case of Canadair, a hitherto obscure Québec manufacturer of ski-doo (tracked snow vehicles) and rail equipment was willing in 1986 to “bet the company” on a new line of business. The development costs of the Challenger, a large business jet, had mostly been paid for, and the company came with a factory and its own airport on the island of Montréal. Bombardier took advantage of the desperation of the seller and the political difficulty of selling the firm to English-speaking investors from outside the province or the country, and the government accepted a complicated and contingent bid of \$143 million. Also in 1986 the federal government sold de Havilland to Boeing, which quickly ran into difficulties. The problems were partly cultural. Boeing was the world’s biggest aircraft company, accustomed to working at the technological limits both in products and in manufacturing technology and to considerable pricing power in its global markets.

²¹ That government (Liberal) had gained votes through castigating its predecessor, the Tory government of John Diefenbaker, for canceling the Avro Arrow, the fastest interceptor of its day, in 1958. Radical steps, including socializing the commanding heights of the industry, were preferable to a confession that Diefenbaker might have been right.

All its products were jets. De Havilland produced small turboprop airliners, had little market power, employed assembly techniques that had not changed much since the war, and had a famously grumpy union. When after six years one of Boeing's star executives was not only unable to make money from the new acquisition but was unable to produce a credible plan showing how a profit might be made in future, Boeing announced the plant would close. The federal government, having tasted de Havilland ownership, declined to invest again, but not so the center-left government of Ontario. Bombardier, shrewdly positioning itself as the buyer of last resort, bought 51 percent of the company on condition that Ontario would buy 49 percent, provide collateral investment, and grant Bombardier an option to buy out its equity at a low price in the future if things worked out well.

These two acquisitions positioned Bombardier well for a deregulated airline market that was just opening up in the United States and elsewhere. De Havilland's turboprops and a passenger version of the Canadair Challenger sold well. The subsequent acquisitions, under even more distressed conditions, of the Shorts aircraft factory in Belfast from the UK government and the Lear Corporation in Wichita, Kansas, cemented Bombardier's position as the world's leading manufacturer of business jets and passenger aircraft in the 36- to 90-seat range. The company's sales have grown by an order of magnitude and it has become one of the few home-grown international successes of the Canadian economy in the decade and a half since it bet the company on a risky new line of business.

Air Canada

If the aircraft manufacturing companies were a financial and managerial nightmare for governments in which a positive outcome was only brought about by a shrewd and daring private acquirer, the airline business was something else entirely. Air Canada had begun life in 1937 as Trans Canada Airlines (TCA), a subsidiary of the Canadian National Railway, itself a state-owned firm. With Canadian Pacific's subsidiary CP Air, it helped tie the country together during the war years (1939-1945) and after. By the 1980s, however, the rationale for public ownership had evaporated. No longer a glamorous infant requiring subsidy, it was merely the largest firm in an intensely competitive, ordinary, industry. Flag carrier status in the peculiarly regulated world of international air travel did not require public ownership. The government determined to sell it.

The method chosen for disposition, on advice, was a public offering of shares, in tranches as market conditions became appropriate. An *Air Canada Public Participation Act* continued Air Canada under the *CBCA* and included a few residual public duties, principally the obligation to keep the corporate headquarters in Montréal, to be subject to the *Official Languages Act*, and to maintain a majority of resident Canadians on its board of directors. Air Canada was required to include in its Articles certain constraints on the issue, transfer, ownership, and voting of its common shares. No person (together with associates) may acquire more than 10 percent of the voting shares, and non-residents of Canada may not in aggregate own more than 25 percent of the shares. Air

Canada undertook to maintain an arm's-length relationship with the federal government and other Canadian Crown corporations with respect to sales of passenger, freight, mail, maintenance, computer, credit card and other services.

The sales were successful, with the result that the company is now widely held and controlled by its management. However, with the absence of a controlling shareholder or shareholder group, the old board of placemen and friends of the government has largely stayed in place. Management has been insulated from shareholder pressure. A long-term tendency to autocratic behaviour was greatly enhanced during the subsequent slow strangulation of Canadian International, the successor to CP Air. The assertion by friends of the government that the subsequent sale of the remnant to Air Canada was inevitable, a small country like Canada being unable to sustain two national carriers, would be more credible had either airline displayed superior management qualities during the decade before the 1998 collapse of CP. Air Canada, now all but a monopoly with 85 percent of the available domestic seat-miles, executed the acquisition poorly. Angry customers abound. One Air Canada response was to announce, three days before Christmas 2000, the lay-off of 3,500 workers and a six percent rise in average fares. Privatization was financially successful, but a coddled and self-appointed board and arrogant management have turned an object of national pride into a running joke.

Airports

On a related matter, the federal government had been concerned since at least 1978 that the investment requirements of running the nation's airports, especially the terminals, were becoming unaffordable, especially in the context of their management under the rules of the civil service. The complex series of transactions over the several terminals at Toronto's Pearson Airport are recounted in Doubilet (1994). This lengthy story does not, in the end, deserve much of a place in an account focused on the privatization of essentially commercial enterprises, as it was in fact more of a case of devolution to lower orders of government. The same is true for the case of Canada's ports. Doubilet (1994 and personal communication) nonetheless makes a number of points that are useful from a process point of view. Drawing on his experience as counsel for one of the parties in the privatization of Terminals 1 and 2, he argues that:

experienced and specialist legal counsel are vital on both sides;

investor protection clauses may need to be negotiated where the governing law is unclear;

transparent bidding rules, process monitors whose job is to ensure they are followed, and wide public disclosure of information are often crucial to the public acceptability of the results; and

continuous attention needs to be paid, especially by the seller, to the financeability of the resulting transaction, especially when the seller imposes important covenants and the buyer relies on debt markets for a substantial part of the transaction.

3.3. The Liberal governments of Jean Chrétien: 1993-present

A change of ruling party often brings about distinct shifts in public policy, but this has not been the case with the centrist Liberal Party under Prime Minister Chrétien. If anything, this government has been slightly more oriented toward a business agenda than its predecessor, the nominally center-right Progressive Conservatives. Coming to office in 1993, they have presided over the longest expansion in postwar Canadian economic history. Their greatest achievement to date has been the taming of a debt and deficit situation that received lip service from the Tories. The February 1995 Budget slashed expenditures and set in motion a searching review of all government programs, in which a constant question was always, “Does government need to undertake this function any longer, or could it be done better by another level of government or the private sector?” This question was also applied to Crown corporations, with the analytic work shared between federal Treasury Board²² analysts and officials from the departments whose ministers bore responsibility for the individual corporations. The pragmatic approach of the previous administration was if anything strengthened and accelerated.

While the fiscal objective was always present, its pre-eminence gave way to a more philosophical consideration of the proper role of government as the fiscal situation eased. Since about 1995, the primary metaphor has been about “steering or rowing.” As the ship of state glides down the river of history, is the role of government that of helmsman (regulator) or oarsman (primary actor)? Posing the question in such a way tends to beg the answer; accordingly, a good deal of thought has gone into thinking through the minimum constraints that need to be imposed on privatized entities, and the creation or modernization of general or “framework” law to guide all corporate entities. This mode of thinking has manifested itself in special acts of Parliament, governing and imposing conditions on the privatization of specific entities, and in periodic revisions and updates of basic framework law, such as the revisions to the *Bankruptcy and Insolvency Act* (1996), the *Personal Information Protection and Electronic Document Act* (2000), the *Canada Business Corporations Act* (2000) and the *Bank Act* (pending). The special acts governing specific privatizations, required since the passage of amendments to the *Financial Administration Act* in 1985, on the other hand, acquired a custom-tailored look. A good example was the *Air Navigation Services Commercialization Act* authorizing the privatization of the air navigation system.

Canadian National Railway

In 1995, the federal government privatized CN through a public offering worth \$2.1 billion, ending a process begun in 1993.

²² The Treasury Board is the only statutorily created committee of the federal cabinet, which itself, in one of those anomalies beloved of devotees of the British tradition of uncodified law, is nowhere mentioned in statute or the constitution. It is the day-to-day management board of the Canadian government and its secretariat is especially concerned with keeping central control over expenditures.

The Canadian National Railway was born in 1918 following efforts to encourage competition in an industry that had been dominated by the privately-owned Canadian Pacific (CP) since the completion of the transcontinental railway in 1886. Subsidies were offered to private regional railroads but profits were elusive. CN was originally a collection of these failing roads and itself required public support from the beginning. When the government imposed freight rate cuts during World War I, dependency had increased. The five years following the War saw most non-CP roads consolidated into the CNR, which invested in tying the pieces together and completing a second transcontinental railroad.

CN had to be re-capitalized on a number of occasions between its founding and its eventual sale. Between 1937 and 1993, CN absorbed federal contributions of no less than \$96 billion, and was still \$2.5 billion in debt by 1995. Its high costs of operation were ultimately attributable to the political imperatives of successive governments that imposed lower than compensatory rates and refused to allow labour or infrastructure costs to be trimmed to efficient levels.

The question of freight rates is key to understanding the condition of CN before privatization. CN depends on two markets for the bulk of its business: the automotive industry, concentrated in Ontario, and export agriculture, concentrated in the three Prairie provinces. Other western commodities such as coal, potash and forest products, make up much of the remainder. The cost to farmers of shipping grain to Thunder Bay (on Lake Superior, connecting via the St. Lawrence Seaway to the Atlantic) or Vancouver had been fixed at artificially low levels since 1897. A boom in grain production starting in the 1960s, coupled with rising inflation, had grain producers paying less than 20 percent of the cost by 1981. CN was not subsidized for its losses in grain carriage until 1983 (Bonsor, 1992).

Likewise, CN found it difficult to abandon unprofitable routes. Between 1968 and 1977, CN and CP together asked for permission to abandon 82 routes, but could only get authorization for 23 closures. At one point, CN estimated that two-thirds of its track carried only one-tenth of the traffic. Government insisted on keeping these unprofitable lines open to maintain service to communities who had come to see rail service as an entitlement and a national symbol. The losses on passenger operations were so great that in 1977 the government took over passenger service through a new Crown corporation, VIA Rail Canada.

In 1987 the government began a long-overdue restructuring of rail regulation. The reforms were timid, however, and precluded any rapid move toward efficiency. Though the balance of power in this most political of industries shifted slowly away from the shippers and toward the carriers, the corporation's losses were still growing by the early 1990s. The 1987 package was not working, and officials began – in 1993, with a change of government in the offing – to examine more serious alternatives. In early 1995 the results were announced. According to the Budget, Transport Canada would shift from “being an operator of the transportation system to focus on core

roles of developing policy and legislation.” Government would no longer micro-manage. CN would be privatized. A plan to prepare it for privatization quickly took shape, with the assistance of independent advisors. CN divested itself of most non-core assets – lands, hotels, telecommunications – with the receipts being reinvested in rail modernization. Debts were paid down and \$900 million of new government equity invested (Canada, Treasury Board Secretariat, 1997). Further reforms to increase the efficiency of the regulatory mechanism were introduced.

Privatization was accomplished through the largest initial public offering in the history of Canadian stock markets, raising \$2.1 billion for the federal government. The seller placed no limitations on the ability of foreigners to own stock in the company, though the board of the company had to have a majority of resident Canadians. The company was obliged to keep its headquarters in Montréal and to maintain its bilingual character. No single shareholder was allowed to own more than 15 percent of the stock. A generous employee involvement program saw 45 percent of the unionized workers buy stock in the company, helping to change the culture of the organization from a rules-bound, union-dominated organization to one where most employees had a vested interest in efficiency. Determined new management fought and won the necessary battles to reduce the workforce by more than 40 percent, though the unions were able to insist on generous severances.

Since privatization, CN’s operating ratio (cash expenses divided by cash revenues) has been reduced from 89 percent in 1995 to 72 percent in 1999. Revenues over the same period are up \$1.5 billion, and rail rates in Canada, measured in cents per tonne-kilometre, are among the lowest in the world. CN is now one of the most efficient large railroads in North America. In 1997, in a move inconceivable under public ownership, it made the strategic purchase of the Illinois Central, whose lines connect the Great Lakes states and the Gulf of Mexico, thus giving the company three routes to the great world ocean, a footprint unmatched by any other railroad. Its success has been so spectacular that the US Surface Transportation Board, in an unparalleled burst of protectionism, last year effectively turned down a merger with the Burlington Northern Santa Fe, the most efficient of the US major railroads. Goliath quailed before David.

Nav Canada

In 1996, Canada privatized its air navigation system (ANS) through the creation of a not-for-profit, non-share-capital corporation, Nav Canada, which would operate on a cost-recovery basis. NavCan is the sole provider of air navigation services to Canadian and foreign users of Canadian airspace and as such offers an example of the legislative creation of a regulated monopoly.

Before 1996, ANS was a branch of the Department of Transport. Its personnel were line civil servants employed under the *Public Service Employment Act* and paid steady but not market-leading or performance-related wages. ANS was funded by annual Parliamentary appropriations. In

other words, even though taxes and fees were roughly equal to the cost of providing service, there was no direct revenue dependency by ANS and little capacity for long-term financial planning. Revenues and expenditures were recorded on an annual cash basis and there was no mechanism for accrual accounting or other normal features of capital planning. The recipients of ANS services had little to say about the quality or cost of the services, and there was no market test for efficiency. The historic rationale for direct public responsibility for ANS was safety and the fact of a natural monopoly. It had long been accepted (without much analysis) that only government could provide such a public good in a reasonably efficient manner.

ANS handled air traffic control, aviation weather services, air communications, and emergency aid. In 1996 it employed 6,300 people. Its expenditures were about \$850 million a year, and related government revenues from an Air Transportation Tax on passengers (\$700 million) and on carriers using the Canadian-controlled part of the North Atlantic (\$50 million) never quite matched requirements. Only with the introduction in 1995 of overflight fees for foreign carriers did revenues begin to match expenditures (Welch, 1998; Rudnick, 1999).

As the volume of air travel increased during the 1980s and 1990s, ANS found itself increasingly unable to make the capital investments necessary to keep safety levels high, or to pay wages sufficient to attract high quality air traffic controllers. Government-wide collective bargaining severely hampered labour flexibility. Government procurement requirements could slow acquisitions for up to three years. Costs were escalating, the airlines were increasingly dissatisfied with the pace of service upgrading, and the government was under great pressure at the time to deal with an apparently out-of-control debt.

The government decided in 1994 to create a not-for-profit, non-share private corporation called Nav Canada that would be controlled by its major stakeholders. The new entity, formally created in May 1995 through the *Air Navigation Services Commercialization Act* after intense negotiations with all parties, would reimburse the government for the capital being transferred through a bond market issue. A negotiated asset value of \$1.5 billion was agreed²³. The Air Transportation Tax was phased out, to be replaced by charges levied on the airline clients on a cost-recovery basis. In 1995, as a step toward commercialization, overflight fees were introduced²⁴. Nav Canada is now a rather normal commercial entity, free to pay competitive wages, a tax-paying entity rather than a drain on the public purse.

Nav Canada is directed by a board appointed by the major ANS stakeholders: the federal government, the Air Transport Association of Canada (the airline industry association), the

²³ The Auditor General subsequently calculated that the figure should have been \$3.1 billion, an argument not without merit. However, the private consortium which would have to pay and guarantee the debt seems to have reached an absolute sticking point at \$1.5 billion. (Canada, Auditor General, 1997). See also Frew and Sexty (2000)

²⁴ En route fees have in recent years become standard for the use of foreign airspace despite the potential for abuse through exorbitant or discriminatory levels. See the testimony of the President of the General Aviation Manufacturing Association in the U.S. (Bolen, 1997).

Canadian Business Aircraft Association (general aviation), and the Nav Canada employees' unions. Other stakeholders, such as airports, pilots, and recreational fliers, are represented through advisory committees. Consumers, however, must trust that one or more of these major stakeholders will protect their interests. Six of the fifteen directors are nominated by the airlines; though independent, they may be expected to be sympathetic to the airlines' objective of a safe, efficient and high-performing system. Three federal directors – private citizens, not civil servants – should mean that there is a solid majority on the board for the major public objective of safety. In addition, Nav Canada is a regulated entity, answerable to the Canadian Transportation Agency, Transport Canada, and following mishaps, the Canadian Transportation Safety Board.

The results so far have been encouraging (Poole, 1997; Rudnick, 1999). Nav Canada is now entirely fee-dependent. In 1998, its net income was \$6 million. Fifty-four percent of its revenue came from foreign overflight charges, 26 percent from terminal charges, and the rest from levies on domestic air carriers. Redundant facilities have been closed. About 1,000 jobs, mostly in the administrative tail, have been cut. Wages for those remaining have risen between 17 and 40 percent. Airlines which had been charged \$528 million under the old ANS system paid only \$355 million in 1998, while flying more flights, routes and passengers. The number of flights per employee rose by a third between 1997 and 1999. With better equipment and fewer staff, air traffic controllers were by 1998 each handling over 300 more flights than they had in 1994. Capital investment in system upgrades continues at a much faster pace than under government ownership.

TABLE 1

Businesses privatized by the federal government

| Business | Buyer | Year | C\$m | Method |
|---|--|-----------|-------|---------------------------------------|
| Wood products labs of the Canadian Forest Service | Forintek | 1979 | -- | Negotiated transfer of assets |
| Northern Transport Co. Ltd. | Inuvialuit/Nunasi Consortium Co. Ltd. | 1985 | 53.0 | Negotiated sale |
| De Havilland Aircraft Co. | Boeing Aircraft Co. | 1986 | 90.0 | Negotiated sale |
| Pecheries Canada | La Cooperative Agro-alimentaire Purdel | 1986 | 5.0 | Negotiated sale |
| Canadian Arsenals | SNC Group | 1986 | 92.2 | Negotiated sale |
| Nanisivik Mines (18 percent stake) | Mineral Resources International Ltd. | 1986 | 6.0 | Qualified auction |
| CN Route | Route Canada Holdings | 1986 | 29.0 | Negotiated sale |
| Canadair | Bombardier Inc. | 1986 | 143.0 | Negotiated sale |
| Canada Development Corporation | Public | 1986 | 360.8 | Two public offerings, one private |
| Northern Canada Power (Yukon) | Yukon Power | 1987 | 75.5 | Negotiated sale |
| Teleglobe Canada | Memotec Data | 1987 | 611.5 | Qualified auction |
| Fishery Products International (62.6 percent) | Public | 1987 | 104.4 | Public offering |
| Varity Corp. (8,000,000 warrants, 450,000 shares) | | 1987-1991 | 9.2 | Private placement and public offering |
| CN Hotels | Canadian Pacific Ltd. | 1988 | 265.0 | Negotiated sale |
| Northern Canada Power (NWT) | Territorial government | 1988 | 53.7 | Negotiated sale |

| | | | | |
|--|----------------------------------|-----------|---------|------------------------|
| Northwest Tel Inc. | BCE Inc. | 1988 | 200.0 | Qualified auction |
| Terra Nova Telecom | Newfoundland Telephone Co. Ltd | 1988 | 170.0 | Negotiated sale |
| CNCP Telecommunications (CN 50 percent interest) | Canadian Pacific | 1988 | 235.0 | Negotiated sale |
| Air Canada | Public | 1988-1989 | 707.6 | Two public offerings |
| Nordion International | MDS Health Group Ltd. | 1991 | 165.0 | Qualified auction |
| Cameco | Eldorado Nuclear Ltd. | 1991-1995 | 444.4 | Negotiated sale |
| Petro Canada (196,300,000 shares) | Public | 1991-1995 | 2,507.1 | Three public offerings |
| Telesat Canada (3,200,000 shares) | Alouette Telecommunications Inc. | 1992 | 154.8 | Qualified auction |
| Co-enerco Resources Ltd. (13,800,000 shares) | Public | 1992-1993 | 74.6 | Two public offerings |
| Syncrude | Syncrude Canada Ltd. | 1993 | 502.0 | Qualified auction |
| Canadian National Railways | Public | 1995 | 2,079.0 | Public offering |
| Transport Canada Air Navigation System | NavCanada | 1996 | 1,500.0 | Negotiated sale |
| Canarctic Shipping Co. Ltd. | Fednav inc. | 1997 | | Qualified auction |

Source: Borden et al (1997); <www.borden.com/london/london_pubs/london12.html>

Remaining opportunities

Governments in Canada have divested themselves of an impressive number of enterprises in the last fifteen years, including some whose privatization required political courage to overcome public doubts. The opportunities that remain are typically even more difficult, but not impossible. The major federal holdings on the list (see Table 2) are either already Crown corporations or else financially self-sufficient entities, and their purposes are more clearly commercial than policy-oriented. Organizations where policy purposes dominate, like the Canadian Broadcasting Corporation, Telefilm Canada or the Museums Corporation have not been listed. The remainder tends to display a concentration on vehicles to assist resource industries characterized by small entrepreneurs faced by large, impersonal markets, and on specialized banks.

On the provincial side, every province has a liquor control board, a state-owned monopoly retailer that dates from the days of the great enthusiasm for “temperance” a century ago. Alberta has now allowed private competitors, in a highly controlled way, and Ontario’s Conservatives promised privatization when they came to office in 1995 but backed down in the face of union pressures and a lack of popular pressure. All provinces also have some form of lottery company, a form of voluntary taxation that used to be anathema to the Left on social grounds but has now been enthusiastically adopted by them because of the great potential for pain-free revenue. Most provinces have companies to manage social housing. Beyond these three widely duplicated kinds of company, the major opportunities are shown in Table 3. In general, there are not a large number of candidate enterprises that would be attractive to private investors, with the exception of the financial intermediaries. Most provinces have holding companies or policy banks to compete in the

industrial location wars or to prop up losing enterprises with regionally important employment. Québec, with its strong history of collective action in the face of the feared tidal wave of Anglophone institutions, is particularly active in this respect.

TABLE 2

Selected remaining federal candidates for privatization

| Company | Sector |
|---------------------------------------|---|
| Atomic Energy of Canada Ltd. | Engineering |
| Business Development Bank of Canada | Policy bank |
| Canada Mortgage and Housing Corp. | Specialized financial intermediary |
| Canada Post | Postal services |
| Canada Deposit Insurance Corp. | Insurer of bank deposits |
| Canadian Commercial Corporation | State trading financial intermediary |
| Canadian Salfish Corp. | Fishery products marketing agency |
| Canadian Wheat Board | Monopoly marketer of certain grains |
| Export Development Corp. | International trade finance and insurance |
| Farm Credit Corp. | Specialized financial intermediary |
| Freshwater Fish Development Board | Fishery products marketing agency |
| Jacques Cartier-Champlain Bridge Inc. | Transportation |
| Royal Canadian Mint | Coinage |
| VIA Rail Canada Inc. | Passenger rail services |

TABLE 3

Selected remaining provincial candidates for privatization

| Province | Company | Sector | |
|----------------------------|-------------------------------------|-----------------------------|-----------------|
| British Columbia | BC Enterprises | Holding company | |
| | BC Ferries | Transportation | |
| | BC Hydro and Power Authority | Electricity | |
| | BC Petroleum Corp. | Crown rent extraction | |
| | BC Rail | Freight transportation | |
| | BC Steamship | Coastal transportation | |
| | BC Transit | Urban transit | |
| | Duke Point Development | Industrial port | |
| | Insurance Corp. of BC | Automobile insurance | |
| | Pacific Coach Lines | Intercity bus line | |
| | Alberta Intermodal Services Ltd | Freight transportation | |
| | Alberta Opportunity | Economic development | |
| | Gainers Inc. | Pork packing company | |
| | Northern Life Canola Inc. | Agricultural processing | |
| | North West Trust Co. | Financial intermediary | |
| | The Alberta General Insurance Corp. | Property/casualty insurance | |
| | Treasury Branches of Alberta | Savings bank | |
| | Saskatchewan | CIC Industrial Inc. | Holding company |
| | | Sask. Auto Fund | Insurance |
| | | Sask. Forest Products Corp. | Forestry |
| Sask. Government Insurance | | Automobile insurance | |
| Sask. Telephone Co. | | Communications | |
| Sask. Transportation Co. | | Freight transport | |
| Manitoba | A.E. McKenzie Co. Ltd. | Seed producer | |
| | Manitoba Development Corp. | Holding company | |
| | Manitoba Hydro-Electric Board | Electricity | |
| | Manitoba Mineral Resources Ltd. | Mining | |
| | Manitoba Public Insurance Corp | Automobile insurance | |
| | Manitoba Telephone System | Communications | |
| | Manitoba Water Supply | Utilities | |
| | Venture Manitoba Tours | Tourism | |
| Ontario | Hydro One Inc. | Electricity distribution | |

| | | |
|-------------------|--|--------------------------------|
| | Ontario Clean Water Agency | Water and sewage |
| | Ontario Food Terminal Board | Freight transportation |
| | Ontario Northland Co. | Passenger transportation |
| | Power Generation Ontario | Electricity generation |
| | Province of Ontario Savings Office | Savings bank |
| Québec | Centre de distribution de médicaments vétérinaires Inc. | Agriculture |
| | Centre d'insemination artificielle du Québec Inc. | Agriculture |
| | Centre d'insemination porcine du Québec Inc. | Agriculture |
| | La caisse de depot et de placement | Pension fund management |
| | Noverco (1991) Inc. Gaz metro-politain Inc., related companies | Gas distribution |
| | Québec-Hydro | Electricity |
| | Régie des installations olympiques | Real estate |
| | REXFOR | Forest products |
| | SIDBEC | Steel |
| | Société des traversiers du Québec | Transportation (ferries) |
| | Société du port ferroviaire de Baie-Comeau/Hauterive | Transportation (iron ore port) |
| | Société générale de financement | Policy bank |
| | Société nationale de l'amiante | Mining (asbestos) |
| | Société québécoise de l'exploitation minière | Mining |
| | Société québécoise d'initiatives pétrolières | Oil and gas |
| | Société québécoise des transports | Freight transportation |
| | Usine de congélation de St-Bruno | Agriculture (pork freezing) |
| New Brunswick | Algonquin Properties Ltd. | Real estate (tourism) |
| | N.B. Power Corp. | Electricity |
| Nova Scotia | Halifax-Dartmouth Bridge Comm. | Transportation |
| | Waterfront Development Corp. | Real estate |
| Prince Edward Is. | Charlottetown Development Corp. | Real estate |
| | Georgetown Shipyards Inc. | Ship construction and repair |
| | PEI Grain Elevators Inc. | Freight transportation |
| | Summerside Development Corp. | Real estate |
| Newfoundland | Marystown Shipyards Ltd. | Ship construction and repair |
| | Nfld. Farm Products Inc. | Agriculture |
| | Nfld. Hardwoods Ltd. | Forest products |
| | Nfld. and Labrador Hydro | Electricity |
| | Twin Falls Power Corp. | Electricity |

3.4. Lessons learned

The Canadian experience, with its twenty years of errors, false starts and considerable successes, demonstrates that the major objectives of privatization can be attained if there is reasonable attention to good process.

Attainable objectives

The main reason for privatizing functions or enterprises is that substantial increases in economic efficiency can be thus attained. The main reason for not doing so is that the entity in question may be performing a policy function regarded in its particular polity as too important to entrust to the ordinary workings of the marketplace.

The sources of efficiency are several. At the level of the workforce, fewer but more skilled people working harder and with better tools and training are considerably more productive than any alternative. These goals are often hard to achieve in bureaucratic organizations where reward is uncoupled to effort: where hard work and imagination does not produce tangible results for the worker.

At the level of management, innovation, speed, flexibility and focus are usually all improved. Innovation in technique, moreover, is not limited to the production side of the enterprise. Innovations in internal leadership, in marketing, in supply chain management, in customer relations and in all the other areas enumerated in the standard textbooks are all important, and private corporations are much better at rewarding these things in tangible ways than are government organizations, where equity usually trumps efficiency. Flexibility means the ability to react swiftly to changing conditions or new opportunities – to “turn on a dime and give a nickel change,” as the saying has it. Flexibility is inconsistent with long hierarchical chains and centralized decision-making, yet those things are the easy response to an unclear objective function and a culture that punishes public error more than it rewards the achievement of goals. Focus comes when organizations – and all their people – know exactly what the goal is; such simplicity is not usually compatible with the ambiguous world of governmental decision-making.

Related to the improvement in efficiency in the newly privatized entity is an improvement in efficiency in the government department that remains. This phenomenon is not much remarked on, but can be just as important as the former. The (now smaller) department has, perforce, improved focus; and since its policy responsibilities usually cover much more than a single corporate entity, even small improvements in the quality of its output can have large consequences.

Privatization can create healthy industries where before were only bureaucracies. These new private firms can invest and compete abroad as well as at home much more easily, with concomitant increases in national income and efficiency.

Finally, expensive functions are removed from the government’s balance sheet. Mere long-term borrowing costs substantially underestimate the real cost of capital for governments. If entities can be turned from a sink for funds into a source, the resources available for the always-pressing requirements of those functions which are properly governmental can be increased.

Financial engineering

The details of the financial process, narrowly defined, that is chosen for privatizing an enterprise are important but not overwhelming. The objective, subject perhaps to some continuing public policy constraints, is to maximize the net revenues to the state. In this context, there are a few basic rules which experience shows usually have a place in the process to be chosen, but likewise, local and historical circumstances can often have a determining effect. Especially given the size of typical transactions, the first rule is always to engage the best advisors possible, even

though they charge large fees. There is little substitute for competent and experienced investment bankers and legal counsel. They can assist with valuation, preparation of the entity for sale, marketing, negotiation, taxation, documentation and contingencies. They can assess the state of national markets and advise on whether private placements, public offerings, negotiated sales or qualified auctions make the most sense in the circumstances.

In deciding on a privatization strategy, Canadian governments have usually chosen to eschew the market for control, as opposed to the market for shares as such. It is an article of faith in this country that widely-held corporations are better than ones that are closely controlled. There is always fear of control falling to undesirable persons or interests, or, especially in the case of financial institutions, of conflicts of interest between dominant owners and financial institutions whose fiduciary interest must focus first on the depositor. Nonetheless, control is valuable in and of itself, and if maximization of yield is an objective, requires thought. In its absence, there is the corresponding danger of a company insulated from shareholder concerns by self-perpetuating managements and boards of directors.

Financial markets greatly value disclosure, precision and transparency. To the degree that the process, once launched, has no secrets, investors will be comforted.

Wider process considerations

Beyond financial matters, there are several other areas that need careful attention early in the process. Stakeholders need motivation, enterprises need preparation before the privatization process is launched, the stability of political will needs to be assured, and any continuing public policy conditions need careful specification.

On the policy side, it is facile to urge the privatization of entities no longer serving a policy interest. In fact, the lines are almost always blurred in practice, and senior political judgment is usually required before much investment is made in the privatization process. Nor can the specification of the continuing obligations be loose or dependent on a continual stream of judgments from the former owner. In Canada, the more recent privatizations, such as those of NavCan, Air Canada or CN, benefited from precision and transparency in these respects. The relevant conditions were laid out in legislation. One useful lesson is that financial markets will accept reasonable policy conditions as long as they are explicit and not subject to after-the-fact political whims.

The stability of early political judgments is important for the credibility of the privatization process. Currently, a public-private competitive bidding process for a \$400 million water and sewage treatment system for the city of Halifax is mired down because the city council cannot stick to its decision in the face of a strong attack by the Canadian Union of Public Employees, which feels as a matter of principle that private sector involvement in anything having to do with water is improper. Irresolution inserts expensive delays into an already prolonged process and merely makes

the seller look foolish. A companion point is that the success of all these matters – privatization, public-private partnerships, alternative service delivery – rests on a core of highly competent and experienced public servants. Fumbles like BCRIC or Halifax can have effects well beyond the specific transaction.

Canadians are skeptical people. A strong lesson from a number of cases is that transparency of process and disclosure of information is essential to public confidence in transactions. Canadian practice still has some distance to go in this respect.

Enterprises need preparation for privatization. As in the sale of anything, a little paint and polish before the sign goes up usually repays itself many times over. In the case of government-owned enterprises, both the enterprise and its policy environment usually need attention. CN, for example, needed a determined new chief executive, substantial repair of its balance sheet, the divestiture of irrelevant and non-core holdings, and a plan for the rationalization of operations before being offered for sale. Equally, it needed the government to be clear that the policy environment in which the newly private company was to operate would not prohibit branch line closures, impose unreasonable freight rates, inhibit investment at home or abroad, and the like.

Finally, these difficult transactions succeed when each of the stakeholders finds some motivation to proceed. In the case of the employees and their unions, the preservation of existing labour contracts and bargaining relationships is usually the basic point. Canadian experience suggests that slimming the payroll can be accomplished if done with some generosity to those who lose out. For CN, for example, substantial severances were agreed for individuals whose jobs would disappear, ranging up to two years' pay and a pension for long-service employees. Attrition and buy-outs can do in a few years and with minimal pain what an axe does immediately but with serious and continuing damage to the organization. European Union law is instructive in this regard. It requires each member state to have legislation guaranteeing the rights that are always, in the event, granted in Canada²⁵. Other stakeholders need to be brought onside. Creating political allies for a particular transaction is often critically important. In principle it does not matter whether it is a matter of making credible promises of the rewards that will follow good performance, as in the case of the managers and employees who will have a long-term future in the company, or simply letting stakeholders see that no alternative is better than a negotiated agreement to proceed. In the case of NavCan, the solution was, in the words of one observer, "to put the inmates in charge of the asylum." The enterprise was turned over to a consortium of stakeholders – but only after analysis convinced the seller that the combination of private incentives that would thus be created would strongly tend to serve the ongoing public interest.

²⁵ The British version is called the *Transfer of Undertakings (Public Employment) Act*, or TUPE, and has been fundamental to the progress that country has made in recent years.

Chapter 4. Dynamics, forms and methods of privatization in the Russian regions: a comparative evaluation.

4.1. Reforming the ownership relations in the context of relationship between different tiers of government in the period of market transformation in Russia.

In the situation of the intensifying crisis of the centralized economy and the emerging spontaneous privatization in the late '80s- early '90s, the issue of methods and mechanisms of managing the public property became especially sharp.

The first reformist government of the late 1991 did not have an actual immediate possibility to exercise the operative control over the privatization process. Being fully aware of the impossibility of the renewal of the public property management in full, the Russian government opted for the launching of the privatization process, the start of which was generated by the presidential Decree "Main provision for the program of privatization of public and municipal enterprises in RF in 1992" (of December 1991) and the package of legislative acts regulating the privatization procedures (the procedures, assets valuation, main methods, etc.) (of January 1992).

On December 27, 1991, the Supreme Council of RF passed Resolution # 3020-1 "On division of the public property into federal property, state property of the Republics in the composition of Russia, Krai, Oblasts, Autonomous Oblasts, Autonomous Okrugs, cities of Moscow and St. Petersburg, and municipal property". Annex #1 to the Resolution identified 21 category of objects being exclusively the federal property, while Annex 2 identified 15 categories of objects that were classified as federal property but might be assigned to the state property of the Republics in the composition of Russia, Krai, Oblasts, Autonomous Oblasts, Autonomous Okrugs, cities of Moscow and St. Petersburg, and municipal property, and Annex 3 stipulated 4 groups (de facto- 9 categories) of objects classified as municipal property. The remaining objects of public property not stipulated in Annexes 1-3 were subject to assignment to the state property of the Republics in the composition of Russia, Krai, Oblasts, Autonomous Oblasts, Autonomous Okrugs, cities of Moscow and St. Petersburg, on the grounds of proposals laid out by the local Councils. Proceeding from the aforementioned document, on March 18, 1992, the President of RF signed the Statute "On the approval of the provision on identification of the composition of the federal, state and municipal property by single objects". The document, in turn, put into effect the procedures for the compilation and approval of the list of objects assigned to the state property of the Republics in the composition of Russia, Krai, Oblasts, Autonomous Oblasts, Autonomous Okrugs, cities of Moscow and St. Petersburg, and municipal property, and the procedures for the legal arrangements of ownership rights.

De-jure, the noted legislative acts (that have become obsolete by now) formed the main legal base in terms of the division of competence in the area of ownership relations between the federal (Russian Federation), sub-federal (its Subjects), and municipal levels for the whole '90s.

Between 1992 through 1994 with respect to the overwhelming majority of the regions²⁶ they also de-facto constituted the legal basis in terms of the division of competence in the ownership area. That coincided in time with the implementation of the mass privatization program when mostly through the voucher scheme a significant mass of property was assigned to labor collectives at their enterprises, their administrations and various outsider stockholders, and the country as a whole experienced the primary fixing of private ownership rights.

During the first years of market reforms, the regional factor was negligible (in the majority of the RF Subjects, the Heads of regional administrations were appointed by the President's decrees), with some very few exceptions: that is, an actual distancing of some Republics from the federal privatization policy (through introduction of personal privatization deposits in Tatarstan, the receipt at single auctions on the voucher sales of privatized enterprises' shares of the vouchers issued only in the given region, changes in the schedule and procedures of privatization of a number of enterprises) and declarative decisions of local Councils (or a preparation for that) on the cease of voucher auctions approximately in one-third of the regions (including many national Republics) in the period of intensification of the conflict between the executive and legislative branches of power at national level (1993).

The new Constitution adopted on December 12, 1993 proclaimed the federative nature of the country. All the Republics in RF, Krai, Oblasts, federal cities (Moscow and St. Petersburg), Autonomous Oblasts, Autonomous Okrugs were declared Subjects of RF. As concerns the problem of division of competence with respect to ownership relations, the authorities carried out the approach according to which "the federal public property and its governance" (Art.71 p. "d") fell under the competence of the Russian Federation, while "the division of public property" (Art.72 p.1 "g")- to the mutual competence of the RF and its Subjects.

Such general formulations could not help but necessitate additional specification with through the issuance of various legislative acts (The presidential Decrees, RF government Resolutions, orders of the State Committee for management of property (GKI), consequently transformed into the Ministry). The practice of concluding treaties on division of powers (by its essence, subjects of mutual competence) between the federal center and single Subjects was gaining momentum. The process started, quite naturally, with such a treaty signed with Tatarstan (February 1994). As concerns relations with some regions, the division of property powers was also transferred to the treaty basis. Thus, as of mid-1997, 10 regions out of those entered into agreements on the division of powers, had the agreements on the matters related to the use of public property

²⁶ Except Tatarstan, Bashkortostan, Sakha (Yakutia): there in the period of the conflict between the USSR and RF authorities practically all the public property was declared the republican one, and only in a very few cases (for instance, with the diamond producer "Alrosa" located in Yakutia) the federal center has succeeded to keep a share in some enterprises' capital. At the same time, while not attempting an open conflict with the federal center, a number of other Republics in RF were eager to increase the proportion of their property within their territory, by employing, apart from formal division procedures, possibilities of negotiations with the federal authorities.

signed with the federal center²⁷. At the same time, there was not standard formulation of the subjects of such agreements. The treaties with Tatarstan, Bashkortostan and North Ossetia had the most generalized formulation, while in the agreements with Komi, Udmurtia and Krasnodar Krai the subject was formulated as “the division of public property”, and in the agreements with Vologda, Rostov and Sverdlovsk Oblasts – as “managing of public property”. It was only the agreement with Nizhny Novgorod Oblast that had a more detailed formulation – “on the division of public property and exercising of powers on management of the federal property”. It is easy to note that the half of the group comprises national Republics of RF, while the other half comprises some “Russian” regions comparable with them in terms of their economic and political significance where regional elites had proved to be most loyal to Moscow.

The concentration of the federal center’s efforts between 1995 to 1998 at the stage of achieving a formal financial stabilization (the lost “battle for the Rb.” one of the resources for which was revenues from the mass privatization), along with the consequent loosening of attention towards local problems (and, sometimes, a demonstrative negligence of those) determined the regional authorities’ intensifying impact on the privatization process and the state of ownership relations. The objective factors (the country’s size and, indeed, a great variety in regional specifics) mattered to a certain extent, however, the main reason was that the long presidential nationwide run 1995-96, without any clear chances for success for the weakening party of power in the federal center made the support on the part of the heads of Subjects critically important, providing that their growing legitimacy and independence in the wake of the direct regional elections held practically throughout the country in 1995-1998.

The redistribution of public property between the tiers of government formed an evident and available resources for the informal bargaining between the center and the regions. On the basis of presidential Decree of February 27, 1996 # 292 and RF Government Resolution of May 8, 1996 # 554, the Russian Fund for Federal Property (RFFI) considered documents on 250 enterprises of 29 regions (the cease of privatization sales due to the mere possibility of the process covered a. 6000 enterprises in 34 regions), which resulted in the off-setting of the federal center’s stakes for the federal center’s debts to Kirov, Sverdlovsk, Novosibirsk Oblasts, and Krasnoyarsk Krai.

The analogous decision were also made later. The practice of 1997-98 showed the assignment of the federal center’s stakes in JSC “Moscow Oil Refinery” and “Mosnefteproduct” (38% each) to found “The central Fuel Company”, “JSC “Sverdlovsknefteprodukt” and “Ekaterinburgnefteprodukt” (38% each) to found “Uralnefteprodukt” (the both cases implied integrated fuel companies organized by the RF Subjects’ authorities to participate in economic activity on the highly profitable market), the transfer of a stake of JSC “Kirovo-Chepetsky Chemical Plant” (19%), International airport “Samara” (25.2%), and “Kalmneft” (38%).

The easiness that the federal center showed in the redistribution of a part of its property in favor of regions is mainly attributed to the fact that the latter was not classified as undoubtedly attractive and profitable, thus it did not form a priority for the large oligarchic capital. The formation of that became possible primarily thanks to the symbiosis between the banking sector and national companies in the oil sector and in the sectors for the primary processing of raw materials and minerals (ferrous and non-ferrous metallurgy, chemicals, forestry²⁸) The natural monopolist over which the government maintained a full (railways) or partial (electric power, gas sectors) ownership control found themselves in a sharp arrears crisis, and their interest in expanding the horizons of their activities was just emerging.

In the course of the strengthening of the contractual basis in the relationship between the federal center and the regions, the primary documents date back to 1991-92 on the division of ownership between different tiers of government were losing their significance, although they have not been abolished de-jure until now. As a result, the mass of the property controlled by regional authorities, the basis of which still was the property of the RF Subjects began its gradual growth. Thus, it was Moscow that along with some Republics that had distanced themselves from the federal center showed its ambitions as a large proprietor. Since mid-1994 the Moscow authorities began to sharply and openly criticize the Russian privatization model, and in 1995 they managed to obtain the possibility to pursue with their independent monetary privatization scheme (Presidential Decree of February 6, 1995, # 96). To illustrate the implementation of the city authorities of their ownership functions, one may refer to their participation in capital of such well known enterprises as JSC “Krasny Oktyabr” and “TSUM” (minority stakes), the redemption of the control stake of the collapsing car manufacturer “ZIL” from “Microdin” trade company in 1996. Between 1997 to 1998 it was the stakes of yet another producer of cars JSC “Moskvitch” and a number of defense enterprises that became subject to intensive discussions on a possible assignment of them under the Moscow city authorities’ ownership.

At the same time the country experienced a parallel process: that is, the emergence of a new secondary ownership structure as a result of the struggle between two trends. One of the latter was the trend to redistribution and concentration of the primary intensively dispersed ownership structure that became derivative from the results of the mass privatization, while the other one was the trend to the closeness of privatized enterprises’ capital, along with the maintenance of status quo.

The first trend manifested itself in the concentration of vouchers in investment funds and other commercial structures, along with the consequent exchange of those for large packages of

²⁷ The number of the regions that entered in agreements on division of powers and on other issues was bigger.

²⁸ In the number of cases when the large Russian capital demonstrated such an interest, regions vigorously countered that. Thus, in autumn 1995, JSC “Beloretsky Metallurgical plant sued the Representative Office for the Republic of Bashkortostan in Moscow to struggle for its exclusion from the list of enterprises whose stakes were put for off-set auctions

shares of privatized enterprises at voucher auctions and the purchase of shares of privatized companies from their employees by managers and outside investors. The focus then shifted to the operations in the securities market and participation in the monetary privatization procedures.

The opposite trend was implemented primarily through the whole complex of formal- and also mostly informal- constraints using which the management of the privatized enterprises attempted to restrict their employees' sales of their shares to outsiders and to maintain the control over the enterprises, possibilities to generate incomes and maintenance of jobs. The latter motivation is also fairly characteristic of many employees that do not belong to the management cast. Other forms of realization of the trend to the closeness in the privatized enterprises' capital were the sectoral and regional ones.

The sectoral form was implemented through the fixing in the state ownership of control blocks of privatized enterprises with a possible trusting of those to their management, establishing on that base holding structures and financial and industrial groups (FIG=s), and through the issuance of "gold share" that enabled the government authorities to a significant extent establish their control over the enterprises.

The regional aspect to closeness manifested itself in the attraction of representatives of regional authorities to the management of joint- stock companies emerging on the basis of the past public enterprises on the grounds of their possessing the unsold at once stakes (potentially designated for future sales) and in the latent preference granted to the local banking and trade and intermediary capital in the course of actual privatization procedures. The said capital was often related to local authorities or management of privatized enterprises, establishment of dependent firms-registrars that controlled the secondary redistribution of already privatized property.

In practice all these forms were closely interlaced and mutually complementary. Notably enough, in the conditions of informal relations between businesses and power situations often arose when outsiders-investors, which initially had been subjects of implementation of the trend to capital redistribution, in the course of a long struggle for corporate control over enterprises found themselves interested in the use of certain forms characteristics of the trend to the joint- stock capital closeness. That to a great extent was encouraged by the combination by managers of the roles of a stockholder and manager, and the roles of outsider (through their own companies and funds, etc.) and insider (administration) stockholder.

The change in the economic and political situation in the country after the August 1998 financial crisis with a high probability allowed to foretell the intensification of the process of emergence of corporate amalgamations with the state participation following the mainstream of the course declared by the government towards the intensification of the economy regulation and pursuance of an active industrial policy. At the federal level, the players have not moved further

than a long and fruitless discussion of the problem of formation of a state-owned joint-stock oil company.

At the same time the Heads of the Subjects showed the first signs of the reactivation of their efforts aimed at their contribution to the process of property management and its use in all the directions, the most important of which became the establishment of holdings of a local magnitude at the regional level, providing that their nucleuses were formed both from the stakes that remained in the government ownership after privatization and through various forms of contribution to their authorized capital.⁴

It is Bashkortostan that should be considered a leader in terms of construction of holdings at the regional level: on September 7, 1998, by consolidating the state-owned stakes in JSC “Bashneft” (63.5%), “Mashenergo” (32%), “Bashneftekhim” (including three daughter companies of the same profile), and the republican branches of “Transneft” and “Transnefteproduct” the Bashkir Fuel Company was established. It immediately climbed up to the 4th place nationwide in terms of its sales (in 1999- the 6th place). Between 1999 through 2000 the government of Tatarstan attempted to have the enterprises of the local petrochemical sector integrated. In their effort, the Tatarstan authorities lean over their 30% stake in JSC “Tatneft”, although the new holding has not been yet created.

Other examples of this kind were the decision of Vladimir Oblast authorities made yet in the critical 1998 on the establishment of 4 sectoral holdings designated to hold as much as 51% of shares of local enterprises of the glass (22 firms), textile (20), flax (originally -20, though the final positive decision was made just by 5) and defense (15 enterprises) industry branches for the sake of their restructuring and getting them out of crisis; the project on establishment JSC “Moscow Televisor” (to carry out the program of the renewal of output of TV-sets in Moscow and town of Zelenograd) with a 50% participation of local authorities in the capital of the newly created JSC; the establishment of JSC “Samaraagrokhimprom” (founders: the Samara Oblast authorities and “Resource-Mezhregiongas” company - each holding 25.5% of the capital, “Samaraenergo” (14%), 4 chemical enterprises- 4-10% each) for the sake of introduction of a new scheme of fertilizers supplies to the agrarian sector in the region and coordination of financial flows of the a.m. participants. The next year, the proposal to amalgamate the public construction enterprises into a local FIG appeared in Novosibirsk Oblast. The economic effect from such amalgamations is at least unclear. In some cases, pragmatic considerations and common sense may leave such initiatives of local authorities at the level of futile attempts.

⁴ Other new directions of the strengthening of the regional authorities' impact on the development of ownership relations (in addition to the aforementioned ones) were: the participation in corporate conflicts within JSC, manipulations with bancckruptcy procedures, creation of ne sub-federal and municipal enterprises, including those established by using the assests of the non-government sector acquired in the course of bankruptcy procedures, capitalization of debts and their exchange for the share in the capital, redemption of single enterprises, initiation of

It is the government's approval of the Concept for Management of the State Property and Privatization in the Russian Federation in its Resolution #1204 of September 9, 1999, that can be considered a new stage of reforming ownership relations in the country. It was fairly symptomatic that, apparently, since 1992 the problem of public property management was recognized a priority vs. a formal change of ownership form. The sharp depreciation of the prices for enterprises and their stakes after the Rb. depreciation naturally encouraged the shift of the focus in the federal center's actions between 1998 to 1999 towards the raise in non-tax budget revenue through the employment of public property. That automatically required introduction of clarity and transparency to relationships between different tiers of government.

Considering the context of the consequent changes in the political situation in 2000 (the election of the new composition of the Parliament and President, alleviation of the confrontation between the executive and legislative branches of power, the federal center's initiatives with respect to reforming the government structures and strengthening the vertical of power) one can speak today about the beginning of a new stage in the federal center- regions relationship, whose core issue is becoming the center's leadership on the basis of the priority of the federal law.

In such circumstances, the conflicts arising with respect to the property that earlier, during the privatization stage, the federal center assigned to the regions under various terms appear quite natural. The most characteristic examples of 2000: the legal claim of RAO UES Russia to return a 40% stake of JSC "Irkutskenergo" (a large producer of electric power whose tariffs are among the lowest nationwide thanks to the use of hydro-electric station) under its control (the a.m. package was assigned to the regional administration on the basis of the presidential Decrees of 1992 and 1996); the actions of the law enforcement agencies related to the examination of the legal nature of the Moscow authorities holding under their ownership of stakes of some JSCs that had been in federal ownership prior to privatization; the conflicting stands of federal and local agencies for property management involved in conflicts between different groups of shareholders in JSC "Kransoye Sormovo" (N. Novgorod), "Crystal" (Moscow) (as concerns the latter firm, the conflict was ruled out by assigning its control block to the all-Russia holding "Rosspirtprom").

In light of the federal center's initiatives on strengthening of the power vertical (the package of Decrees and bills of the President announced between May to June 2000), the introduction of the institution of plenipotentiary representatives of the President of RF in 7 supra-regions shows a green light to possibilities to organize the representation of the federal center's interests locally, including the area of ownership relations (division of competence between Russian Federation, its Subjects, municipal entities), property management and control over such a management.

actions of, and influencing the decisions by law enforcement and judicial agencies with respect to cancellation of privatization and secondary transactions. All the above is not considered in the present paper.

4.2. The structure of the privatized public property and the pace of its privatization, by its forms.

As it was shown above, the overall property mass owned by the state prior to the start of market reforms was divided into municipal property, property of the RF Subjects, and federal property, which in many aspects determined the pace and the nature of the privatization process at the regional level and across the country as a whole.

TABLE 4.1

Dynamics of privatization in Russia between 1993 to 1999, by forms of ownership

| | The number of privatized enterprises, total | | In municipal ownership | | Owned by the RF Subjects | | Owned by the federal government | |
|-----------|---|------------------------|------------------------|------------------------|--------------------------|------------------------|---------------------------------|------------------------|
| | Units | As % to the prior year | As % to result | As % to the prior year | As % to result | As % to the prior year | As % to result | As % to the prior year |
| 1993 | 42924 | 91,7 | 61,3 | ... | 22,2 | ... | 16,5 | ... |
| 1994 | 21905 | 51,0 | 50,7 | 42,2 | 23,3 | 53,7 | 26,0 | 80,5 |
| 1995 | 10152 | 46,3 | 68,5 | 62,7 | 13,0 | 25,8 | 18,5 | 33,0 |
| 1996 | 4997 | 49,2 | 67,1 | 48,2 | 14,3 | 54,3 | 18,6 | 49,5 |
| 1997 | 2743 | 54,9 | 66,4 | 54,3 | 20,0 | 76,6 | 13,6 | 40,3 |
| 1998 | 2129 | 77,6 | 72,5 | 84,8 | 15,1 | 58,6 | 12,4 | 70,6 |
| 1999 | 1536 | 72,1 | 73,8 | 73,4 | 19,4 | 92,8 | 6,8 | 39,4 |
| 1993-1999 | 86386 | 3,6* | 60,5 | 4,3* | 20,6 | 3,1* | 18,9 | 1,5* |

*- 1998 to 1993 (as %)

Sources: Russian Statistical yearbook. 1994. Statistical compilation / Goskomstat of Russia. Moscow, 1994, pp. 578-580. Statisticheskiyeulleteni o khode privatizatsii gosudarstvennykh i munitsipalnykh predpriyatiy (objektov) za yanvar-dekabr' 1994. (pp. 34-36), 1995 (pp. 28-30), 1996 . (pp. 28-30), 1997 (pp 28-30), 1998 . (pp. 36-39), 1999 . (36-39). Moscow, Goskomstat of Russia, author's calculations.

The above data (see Table 4.1) shows a downward trend of the Russian privatization after 1993: between 1994 through 1997, every year compared with the prior one, the number of privatized enterprises (objects) fell as much as twice, while between 1998 to 1999- approximately by one-fourth. At the same time, as a rule, every year the number of privatized objects owned by municipalities was falling to a less extent than enterprises (objects) owned by the Subjects and the federal government. At the same time in 1994-95 and 1998 the contraction in the number of privatized enterprises (objects) owned by the RF Subjects was bigger than the contraction of the number of privatized enterprises (objects) owned by the federal government. Between 1996 to 1997 and in 1999 the picture was opposite. Nonetheless, the correlation between enterprises (objects) privatized in 1999 and those privatized 1993 (nationwide- 3.6%) was biggest in terms of enterprises owned by municipalities (4.3%), while the smallest - in terms of enterprises owned by the federal government (1.5%), with the RF Subjects' property holding an intermediary position -3.1%.

To estimate the pace of the privatization process in different regions, let us evaluate the proportion of privatized enterprises (objects) in a certain year in their overall mass over the 7-year period in question.

Nationwide, a half of **all the enterprises privatized** between 1993 to 1999 changed their form of ownership in 1993. The respective rate was under 50% in Komi, Arkhangel'sk Oblast (with the nenetsky AO), Vologda, Ivanovo Oblasts, city of Moscow, Mosco, Tver, Yaroslavl, Kirov, Belgorod Oblasts, Kalmykia, Tatarstan, Volgograd, Saratov, Ulyanovsk Oblasts, almost in all the North- Caucasian regions (except Adygea and Stavropol Krai), Bashkortostan, Sverdlovsk, Kemerovo, Novosibirsk, Tomsk Oblasts, Khanty-mansy, Ymalo-Nenetsky, Chukotsky AO=s, Krasnoyarsk Krai, Kamchatka, Magadan, Kaliningrad Oblasts, while it made up over 2/3 in Pskov, Orel, Tul, Voronezh, Lipetsk, Tambov, Penza Oblasts, and Adygea.

The next year, in 1994, a 1/4 of enterprises (objects) that had changed their ownership form was privatized. A significant (over 30%) proportion of the enterprises (objects) privatized in 1994 was noted in Nenetsky AO, Murmansk, Vladimir, Kostroma, Kirov, Belgorod Oblasts, Mary-El, Chuvashia, Kalmykia, Astrakhan, Volgograd, Ulyanovsk Oblasts almost in all the North-Caucasian regions (except Ingoushetia and Stavropol Krai, Kurgan Oblast, Altay Republic, Novosibirsk Oblast, Krasnoyarsk and Khabarovsk Krai, Ust-Ordynsky, Byryatsky and Chukotsky AO=s, Jewish Autonomous Oblast, Amur, Magadan, Kaliningrad Oblasts. At the same time it was only Volgograd Oblast, Kalmykia, Dagestan, Cabardino-Balkaria and North Ossetia in which the number of the enterprises (objects) privatized in 1994 was in excess compared with that of 1993, providing that in Cabardino-Balkaria and North Ossetia it accounted for over a half of all the enterprises (objects) privatized over the last 7 years.

It was 1995 that became the year of privatization of the biggest number of enterprises (objects) in Moscow (40%), Tatarstan (27%), Ingoushetia (a. 39%). A relatively great number of enterprises (objects) (over 15% of all that changed the form of ownership) were privatized in Bashkortostan, Arkhangel'sk, Ivanovo, Moscow, Tomsk, Kamchatka Oblasts, Krasnoyarsk Krai (it was that very year, during which all the privatized enterprises in its Taymyr and Evenk AO=s changed their form of ownership (the nationwide index was a. 12%).

During the following 4 years a relatively great number of enterprises (objects) (between 10 to 20% of those that changed the form of ownership) was privatized in Arkhangel'sk (1996-1997), Vologda (1998), Perm (1996) Oblasts, city of Moscow (1996- 26.4%), Kalmykia (1996), Tatarstan (1996-1997, 1999), Ingoushetia (1996- a. 1/3), Bashkortostan (1996).

The number of the regions, in which the privatization of public property as the economic phenomenon fixed by the official statistics was fully discontinued, began its gradual growth. This path was pioneered by Altay Republic and Komi-Permyatsky AO in which no objects have been privatized since 1994, while 1995 became the last year of privatization in Nenetsky AO and Adygea, 1996- in Murmansk Oblast, 1997- in Orel, Ryazan, Voronezh, Kurgan, Orenburg, Perm Oblasts, 1998- in Kostroma, Tambov Oblasts, Kalmykia, Carachaevo-Cherkessia, Amur Oblasts, and Chukotka. At the same time it must be noted that conclusions on the last group of regions (in

which privatization was not held in 1999) could be drawn as soon as the data for 2000 becomes available, while upon the stop of privatization in all the other aforementioned regions, it was not conducted either during the next 2-5 years running.

Over 70% of all the enterprises (objects) that changed their form of ownership for municipal between 1993 through 1999 were privatized nationwide mostly between 1993 to 1994, providing that their overwhelming majority was privatized yet in 1993 (during the year only in 36 regions alone less than the half of all the municipal objects privatized over 7 years became subject to privatization. The biggest absolute number of objects of municipal ownership privatized over 1993-1994 (in all for the two years) was noted in Sverdlovsk Oblast (1,868 units), Krasnodar Krai (1,861), Moscow (1,454) and Rostov (1,414) Oblasts, Stavropol Krai (1,249), Chelyabinsk (1,090), Nizhegorskya (1,083), Perm (1,080), Saratov (1,018) Oblasts. In the city of Moscow, Vologda, Vladimir, Tver, Tula, yaroslavl, Voronezh, Volgograd, Samara, Orenburg Oblasts, Bashkortostan, Altay, Kransoyarks, Primorye, Khabarovsk Krai, Kemerovo, Tymen (inclusive of Khanty-Mansy and Yamal- Nenetsky AO=s), Irkutsk, Chita Oblasts their number accounted for 500 to 1,000 units.

The significant exceptions were only St. Petersburg (all enterprises privatized in 1995), Moscow (70% in 1995-96), Kalmykia (a. 55%- in 1994 and another 35% in 1995), Tatarstan (a. 1/3 in 1995 and a. 1/4 each year between 1996 to 1997), Dagestan (32% in 1994 and a. 31% in 1996), Ingoushetia (a.36% in 1995, 31- 1994 and 30% in 1996), Kabardino-Balkaria (a.37% in 1994), North Ossetia (80%-in 1994), Altay Republic (a. 53% in 1994), Yamal-Nenetsky AO (a. 56% between 1995 to 1999, of which a. 31%- in 1995), Evenk AO (all enterprises privatized in 1995).

Apart from the aforementioned regions, the privatization of municipal property between 1995 to 1999 was relatively considerable (i.e. the proportion falling on these 5 years accounts for not less than 30% of all the enterprises privatized between 1993 to 1999) in Komi, Arkhangel'sk, Vologda, Ivanovo, Tver, Yaroslavl, Belgorod, Saratov Oblasts, Kransodar Krai, Bashkortostan, Kemerovo, Novosibirsk, Tomsk, Tymen (including Khanty-Mansy AO) Oblasts, Kransoyarsk Krai, Irkutsk, jewish Autonomous Oblast and Kaliningrad Oblast. The record-breaking number of enterprises (objects) of municipal ownership for the period beteen 1995 to1999 was privatized in Moscow (2,310 units0, Krasnodar Krai (813), Sverdlovsk (746), Vologda (555), Saratov (539), Kemerovo (520) Oblasts.

The evaluation of the privatization of enterprises (objects) being in the ownership of RF Subjects gives the following picture: over 82% of all the enterprises that changed their form of ownership over the 7- year period concerned were privatized between 1993 to 1994. Similar to the case with municipal property, in the main mass of regions the absolute majority of objects were privatized yet in 1993 (only in 30 regions - less than a half of them). In terms of an absolute number of enterprises (objects) of Subjects' ownership privatized between 1993 to 1994 (in total for the both years), the leaders among regions were St. Petersburg (1,849 units), Altay Krai (579), Rostov

(508) and Voronezh (485) Oblasts, Krasnodar (402), Krasnoyarsk (370) and Stavropol (315) Krai, Saratov Oblast (302). In Kursk, Nizhny Novgorod, Samara, Omsk, Novosibirsk, Tyumen Oblasts the number of such enterprises during the period in question made up between 250 to 300.

As concerns the list of regions-exceptions, one can note a latent prevalence of national entities. In Arkhangel'sk Oblast, over half of all the enterprises (objects) were privatized in 1995 and 1997 (in total), in Ivanovo Oblast-31% in 1995 (between 1993 to 1994- 26.3% annually), In Perm- almost $\frac{3}{4}$ in 1996, in Moscow- 2.3 in 1997 (and another over 28% - in 1998), in Tatarstan- over half – between 1994 to 1995 (and over 37%- in 1998-99), in Ingushetia – 42- in 1995 (yet another 36%- in 1996), in Bashkortostan- over 36% in 1994 (another 22% in 1995 and 15.5% -in 1996), in Yamal Nenetsk AO- a. 43% in 1996 (roughly another 29- in 1995), in Khanty-Mansy AO- over 35% in 1998 (roughly another 23.5%- in 1999), in Taymyr and Evenk AO=s- all the enterprises changed their form of ownership in 1995.

In addition to the a.m. regions, the privatization of the RF Subjects' property in 1995-1999 was relatively significant (i.e. the proportion of enterprises privatized between 1993 to 1999 was not less than 20%) in Vologda, Novgorod, Moscow, Yaroslavl, Volgograd, Samara Oblasts, Kalmykia, Dagestan, North Ossetia, Buryatia, Tomsk, Magadan, Sakhalin Oblasts, Chukotka AO. It was 7 regions in which over the period in question the absolute number of privatized enterprises owned by the RF Subjects exceeded 1,000 units: Tatarstan (326), Bashkortostan (227), city of Moscow (216), Arkhangel'sk (147), Moscow (109) and Perm (103) Oblasts.

Roughly 80% all the privatized enterprises (objects) **owned by the federal government** changed their form of ownership yet in 1993-94, however, when compared with the objects owned by municipalities and RF Subjects, the process was more even. In 47 regions, the biggest number of privatized federal objects was noted in 1993 (however, only in 27 of those it accounted for a half and more of the overall number of enterprises privatized for 7 years), in 29 regions- 1994 (in 15 of those it accounted for a half and more of the overall number of enterprises privatized for 7 years). The record-breaking number of federal enterprises privatized between 1993 to 1994 (in total for the 2 years) was noted in Tyumen (739 units) Oblast (including Khanty-Mansy (330) and Yamal-nenetsky (108) AO=s), St. Petersburg (620), Krasnodar Krai (589), Sverdlovsk (552), Rostov (493), Kemerovo (489), Nizhny Novgorod (423), Irkutsk (395), Novosibirsk and Volgograd (both-372), Chelyabinsk (339) Oblasts, Stavropol Krai (331), Saratov (311) Oblast.

It was 6 regions that became exceptions from the general trend: In Arkhangel'sk Oblast, roughly a half of enterprises (objects) in federal ownership were privatized between 1995 to 1997 (in total), in Moscow- a. A half on 1995 (yet a. 16% in 1996), in Bashkortostan – 62.5% in 1996 (another $\frac{1}{4}$ -in 1998), in Perm Oblast- a.54% in 1996, in Chukotka AO- 31.6% in 1998 (yet over 21% in 1997), in Taymyr- all enterprises changed their form of ownership in 1995.

In addition to the a.m. regions, the privatization of the federal property in 1995-1999 was relatively significant (i.e. the proportion of enterprises privatized between 1993 to 1999 was not less than 20%) in Komi, nenetsky AO, Vologda, Ivanovo, Moscow, Yaroslavl, Kursk, Tambov, Penza, Saratov Oblasts, Mary-El, Mordovia, Kalmykia, Orenburg, Kemerovo, Novosibirsk, Tomsk, Kamchatka Oblasts, Altay, Kranoyarsk and Primorsky Krai, Buryatia, Tyva. Between 1995 to 1999 the number of privatized federal enterprises exceeded 100 units in the following regions: city of Moscow (539), Moscow (214), Kemerovo (194), Perm (189), Arkhangel'sk (132 (including Nenetsky AO (2)), Nizhny Novgorod (121), Tymen (116) (including Khanty-Mansy (39) and Yamal-Nenetsk (20) AO=s) Oblasts, Krasnodar Krai (113), St. Petersburg (111), Rostov and Ivanovo (both 109) Oblasts.

In the aggregate amount of enterprises (objects) privatized in Russia between 1993 to 1999, it was municipal property that clearly showed its prevalence- 60.5%, while the proportions of federal property and the one of the RF Subjects were almost equal: 18.9% and 20.6%, respectively. In terms of the structure of the privatized enterprises (objects), one can note the following groups of regions (considering that the regions, in which the proportion of the property owned by RF Subjects and federal government is considerably bigger than the respective average indices nationwide):

With the higher proportion of the property of RF Subjects and federal government (both account for not less than 1/5): Nenetsky AO, Pskov, Kostroma, Orel, Ryazan, Belgorod, Astrakhan, Kurgan, Novosibirsk, Omsk, Amur Oblasts, and Jewish Autonomous Oblast (with the maximal proportion of federal property of 32.5% noted in Novosibirsk Oblast and the maximal proportion for RF Subjects' property registered in Kostroma- a. 34%)

With the higher proportion of federal property (1/5 and above) and the lower proportion of the RF Subjects' property (under 1/5): Leningrad, Ivanovo, Tver, Tula, Nizhny Novgorod, Volgograd, Kemerovo, Tomsk, Tymen (including Khanty-Mansy and Yamal-Nenetsky AO=s), Irkutsk, Magadan Oblasts, Khakassia, Khabarovsk Krai (providing that the maximal proportion of federal property is noted in Yamal-Nenetsky AO- a.1/2; at the same time the proportion of municipal property fluctuates within a wide range).

With the higher proportion of RF Subjects' property (1/5 and above) and the lower proportion of the federal property (under 1/5): Karelia, Komi, Novgorod, Bryansk, Vladimnir, Kaluga Oblasts, Mary-El, Mordovia, Chuvashia, Voronezh, Kursk, Tambov Oblasts, Kalmykia, Penza, Samara, Ulyanovsk Oblasts, all the Republic in the North Caucuses, Orenburg Oblast, Altay Republic, Altay and Kransoyarsky Krai, Buryatia, Tyva, all the autonomous okrugs of East Siberia and Far East (exdcept Chukotka) (in the majority of the a.m. regions the RF Subjects' property accounts for under 40%, though in some Republics and AO=s it exceeds ½; at the same time the proportion of municipal property fluctuates within a wide range);

With the higher proportion of municipal property (all the others, except the city of Moscow, St. Petersburg, Tatarstan, Bashkortostan, Sakha (Yakutia));

The separate group of regions (the city of Moscow, St. Petersburg, Tatarstan, Bashkortostan, Sakha (Yakutia) in which the structure of enterprises (objects) privatized between 1993 to 1999 was directly related to the status of the said Subjects of RF

In the national capital, over $\frac{3}{4}$ of the enterprises (objects) that changed their form of ownership were attributed to the municipal property, and all of them were privatized until 1996, as well as the main mass of enterprises (objects) owned by the federal government. At the same time the enterprises (objects) of the city level (216 units, or slightly over 5% of the overall number of privatized objects) along with some part of federal ones, were privatized just starting from 1997.

In St. Petersburg, the situation was absolutely different. The municipal enterprises (objects) were privatized only in 1995 (183 units, or 6% of the overall number of privatized objects), with the prevalence of enterprises (objects) being the property of the city (70% of all the privatized objects). Notably, the absolute number of privatized enterprises (objects) owned by the federal government (731) in St. Petersburg was almost equal to the one in Moscow (728).

Such a situation is related to the selection of a concrete model and organizational and legal scheme of privatization rather than to the actual problems of development of a local self-governance and division of ownership within the both megapolices. It appears that both in Moscow and St. Petersburg (at least between 1992 to 1994) the circle of enterprises (objects) to be privatized was similar in principle, however the privatization process was pursued on different levels in terms of its organization. In addition, by that time (1994-95) Moscow authorities finally shaped their view on the Russian model of privatization as a practically free distribution of public property without any investment attractiveness and duly budget effect. That dictated the need in maintaining a considerable mass of city property and a possibility of privatization of just a limited number of objects in the frame of single projects.

As concerns the a.m. national Republics, in Tatarstan, Sakha (Yakutia) and Ingoushetia none of the federal enterprise (object) has been privatized, which is the result of the transfer of the whole federal property into the republican one during 1990-92 and complicated conditions of the founding of the Republic of Ingoushetia in 1991-93 (the conflict with North Ossetia, separatism in Chechnya, underdeveloped industrial sector and infrastructure). The group may also comprise Bashkortostan, where over 7 years in question only 8 federal enterprises were privatized (less than 1% of the total number of privatized objects in the Republic).

The common distinguishing feature of the ownership relations policy pursued by all the noted regions became a slow privatization and maintenance of the government's strong position in many sectors of local economies. At the same time there were significant differences in the structure of enterprises (objects): in Tatarstan, the proportions of municipal and Republic's property

were almost equal, while in Bashkortostan the correlation between the municipal and local government's one was 2/3 to 1/3, and the respective correlation was almost the same in Ingoushetia, and Sakha (Yakutia) clearly demonstrated the prevalence of the local government's property (4/5 of all the privatized enterprises).

4.3. Apparatus of the Russian privatization: a brief overview of privatization methods.

In the course of the Russian privatization process during the market reform period, the major economic players employed various devices to sell (assign) public property to private sector (private individuals and non-governmental legal entities).

The first identification of ways of privatizing the government- and municipality - owned enterprises at the legislative level was made with the law "On privatization of public and municipal enterprises in RSFSR" enacted on July 3, 1991. Consequently, in compliance with the State Privatization Programs for 1992, 1993 and 1994 and other documents, which were issued by the executive branch rather than legislative one (presidential Decrees, Resolutions of RF government, and statutes of GKI) in practice the list of the apparatus for changing the ownership forms experienced numerous changes and corrections.

Practically, there was no reporting on the privatization process in the governmental statistical publications in 1991-92, and it was only 1993 when the respective detailed sections appeared for the first time in Goskomstat materials. It was also there during 4 consequent years, though subject to some modification.

TABLE 4.2

Dynamics of privatization in Russia between 1993-1997, by methods

| | 1993 | | 1994 | | 1995 | | 1996 | | 1997 | |
|---|--------------|------------|--------------|------------|--------------|------------|-------------|------------|-------------|------------|
| | units. | % | units. | % | units. | % | units. | % | units. | % |
| Incorporation | 13349 | 31,1 | 9814* | 44,8 | 2816 | 27,7 | 1123 | 22,5 | 496 | 18,1 |
| Sales at auctions | 2704 | 6,3 | 971 | 4,4 | 430 | 4,3 | 193 | 3,9 | 150 | 5,5 |
| <i>Tenders</i> | 13607 | 31,7 | 5511 | 25,2 | 1719 | 16,9 | 482 | 9,6 | 276 | 10,05 |
| - commercial | 13049 | 30,4 | 5250 | 24,0 | 1610 | 15,85 | 445 | 8,9 | 262 | 9,55 |
| - investment | 558 | 1,3 | 261 | 1,2 | 109 | 1,05 | 37 | 0,7 | 14 | 0,5 |
| Redemption of the leased property | 12663 | 29,5 | 4558 | 20,8 | 3027 | 29,8 | 1603 | 32,1 | 402 | 14,65 |
| <i>Sales of</i> | 172 | 0,4 | 323 | 1,5 | 2099 | 20,7 | 1546 | 30,9 | 1400 | 51,0 |
| - assets of liquidated enterprises | 172 | 0,4 | 323 | 1,5 | 277 | 2,7 | 185 | 3,7 | 180 | 6,55 |
| - assets of the incomplete (construction) objects | - | - | - | - | 149 | 1,5 | 102 | 2,0 | 71 | 2,6 |
| - real estate | - | - | - | - | 1564 | 15,4 | 1145 | 22,9 | 1056 | 38,5 |
| - land | - | - | - | - | 62 | 0,6 | 75 | 1,5 | 70 | 2,55 |
| - enterprises-debtors | - | - | - | - | 47 | 0,5 | 39 | 0,8 | 23 | 0,8 |
| Direct sales | 429 | 1,0 | 658 | 3,0 | - | - | - | - | - | - |
| Redemption by shares | - | - | 70 | 0,3 | 61 | 0,6 | 50 | 1,0 | 19 | 0,7 |
| Total | 42924 | 100 | 21905 | 100 | 10152 | 100 | 4997 | 100 | 2743 | 100 |

Sources: Russian Statistical yearbook. 1994. Statistical compilation / Goskomstat of Russia. Moscow, 1994, pp. 581-583. Statisticheskkiyeulleteni o khode privatizatsii gosudarstvennykh i munitsipalnykh predpriyatiy (objektov) za

yanvar-dekabr' 1994 (pp. 46-48), 1995 (pp. 33-35), 1996. (pp. 33-35), 1997 (pp. 33-35). Moscow, Goskomstat, author's calculations.

The respective classification of privatized enterprises (objects) by methods of changes in ownership forms generally was based on the classification of privatization methods borrowed from the government Privatization Programs- 1992, 93, and 94 and other related documents.

As table 4.2 shows, the *main methods* of the Russian privatization that implied *standard procedures* were, on the one hand commercial tender and auctions, while on the other, incorporation, i.e. the establishment of joint- stock companies (JSC), and the redemption of earlier leased assets.

The tender and auction procedures were used in the course of privatization of small enterprises (mostly in the frame of a small privatization program, i.e. for privatizing trade, public catering and household services) as well as to sell the property (assets) of liquidated and operating public and municipal enterprises, and incomplete (under construction) objects.

The incorporation processes took place on the basis of large and medium-size enterprises. In combination with the issuance of privatization vouchers for the whole population nationwide, incorporation was used to implement the privatization program through the distribution of shares among employees at incorporated enterprises and a consequent selling of shares at the voucher (until June 30, 1994) at monetary auctions, commercial and investment tenders.

The redemption of earlier leased assets was used to privatize a great variety of enterprises, including large and medium-size enterprises that were transformed into JSC.

However, it is impossible to argue about the full similarity. The existing discrepancies are related primarily to supplementary privatization methods. Direct sales (1993-94) and "redemption by shares" (1994-97) as such have not been stipulated in any basic legislative acts, as well as a "special case" in the context of privileges granted in the course of incorporation (1994-97). One may assume that the said cases imply special categories of public and municipal enterprises with a significant number of disabled employees, and folk craft enterprises.

After adoption of Main Provisions of the state program of privatization of public and municipal enterprises in RF after July 1, 1994 (Presidential Decree of July 22, 1994 # 1535), the new objects for privatization became real estate, land, and indebted enterprises. That is why since 1995 the respective amendments were introduced to the Goskomstat's classification of privatization methods. Despite the a gradual increase in the overall proportional weight of enterprises (objects) privatized through the sales of land, real estate and indebted enterprises in the overall mass of privatized enterprises, the noted privatization methods on the whole can be characterized as *non-standard or supplementary*, due to their dual nature.

Secondly, it must be noted that the Goskomstat's introduction of the sales of real estate, land and indebted enterprises in the overall mass of privatized enterprises since 1995 does not appear fairly correct. Although the said procedures ensure the assigning of certain material assets

(buildings, facilities, land lots) to the non- government sector, in such cases there may be no privatization of new enterprises as independent legal entities and single property complexes. In many cases one can speak about redemption of buildings, facilities (in the case of economic companies created in the course of the “small” privatization) earlier rented by enterprises or about redemption of the respective lots (in the case of JSC created on the basis of large and medium-size enterprises. Partly that can be also attributed to the incomplete objects under construction.

Basically, proceeding from their economic contents and minor outspread, it is also investment tenders (or auctions) on the sale of both enterprises and stakes of JSC that can be attributed to non-standard privatization methods.

In summer 1997, a new law “On privatization of public property and fundamentals of the privatization of municipal property was adopted (# 123-FZ, signed by the President on July 21, 1997).

In compliance with the law, in the course of privatization of public and municipal property the following methods of privatization are used:

- sales of public or municipal property at an auction, including the sales of shares of JSC of open type created in the course of privatization conducted at a special auction;

- sales of public or municipal property at a commercial auction with investment and/or social conditions (instead of investment tenders that have not justified themselves and were canceled per se);

- sales of shares of newly created in the process of privatization of JSC to their employees;

- redemption of the rented public or municipal property;

- transformation of the public and municipal unitary enterprises into “open” JSC whose 100% of shares are owned by the government or municipal authorities;

- contribution with the government or municipal property to authorized capital of economic companies;

- estrangement of the shares of “open” JSC created in the process of privatization and owned by government or municipal authorities to owners of government or municipal bonds that certify the right for purchasing such shares

As the above list shows, the new in principle methods of privatization are: 1) transformation of the public and municipal unitary enterprises into “open” JSC whose 100% of shares are owned by the government or municipal authorities; 2) contribution with the government or municipal property to authorized capital of economic companies; 3) estrangement of the shares of “open” JSC created in the process of privatization and owned by government or municipal authorities to owners of government or municipal bonds that certify the right for purchasing such shares. Most likely, all these methods have already been used in practice, however it was only in 1998, upon the issuance

of a new privatization law, whose article 16 singles them out as single privatization methods, that they were included in the officially adopted classification.

After the enactment of the noted document, the respective amendments were also introduced in the government statistical reporting that already in 1998-1999 looked as follows:

TABLE 4.3

Dynamics of privatization in Russia in 1998-99, by methods

| | 1998 | | 1999 | |
|--|-------------|--------------|-------------|--------------|
| | Units | % | units | % |
| <i>Sales of public and municipal property</i> | 491 | 23,05 | 332 | 21,6 |
| - at an auction | 258 | 12,1 | 141 | 9,2 |
| - at a commercial tender | 233 | 10,95 | 191 | 12,4 |
| - with investment and social conditions | 80 | 3,75 | 75 | 4,9 |
| with investment conditions | 88 | 4,15 | 86 | 5,6 |
| - with social conditions | 65 | 3,05 | 30 | 1,9 |
| <i>Sales of the stock of JSC created in the process of privatization</i> | 237* | 11,15 | 214* | 13,9 |
| - to their employees | 204 | 9,6 | 185 | 12,0 |
| - at a specialized auction | 33 | 1,55 | 29 | 1,9 |
| <i>The redemption of public and municipal assets rented</i> | 151 | 7,1 | 127 | 8,3 |
| - by the tenant, according to the leasing agreement | 145 | 6,8 | 127 | 8,3 |
| - through transformation into open JSC with the tenant's right for the priority purchase of the shares | 6 | 0,3 | - | - |
| Transformation of public and municipal enterprises in JSC with the fixing of 100% of their stock in the public or municipal ownership | 18 | 0,85 | 10 | 0,7 |
| Contribution with the public or municipal property to the authorized capital of economic companies | 3 | 0,15 | 5 | 0,3 |
| Estrangement of the state-owned or owned by municipalities stock of JSC created in the process of privatization in favor of owners of public (municipal) bonds that certify the right for purchasing such stocks | 1 | 0,05 | - | - |
| <i>Sales</i> | 1228 | 57,65 | 848 | 55,2 |
| - of the assets of the liquidated enterprises | 120 | 5,625 | 80 | 5,2 |
| - indebted enterprises | 9 | 0,4 | - | - |
| - real estate | 1014 | 47,625 | 733 | 47,7 |
| -lots included in the composition of a property complex of privatized enterprises | 85 | 4,0 | 35 | 2,3 |
| Total | 2129 | 100,0 | 1536 | 100,0 |

Sources: Statisticheskiyeulleteni o khode privatizatsii gosudarstvennykh i munitsipalnykh predpriyatiy (objektov) za yanvar-dekabr' 1998. (pp. 6-13), 1999 (pp. 6-13),. Moscow, Goskomstat of Russia, author's calculations.

As of the moment of the pursuance of privatization, in addition to differences by forms of ownership and the privatization methods, the inter-regional differentiation of the privatization process that manifested itself in the course of implementation of market reforms had another aspect—namely, the sectoral one.

However, in our view, the sectoral distribution of privatized enterprises in certain regions was of a secondary importance to the evaluation of the interregional differences in terms of reforming ownership relations. The latter was determined primarily by the region's profile emerged by the early '90s in the frame of a single economic complex of the former USSR and RSFSR and, secondarily, by the standards of the government privatization programs of 1992, 1993, and main Provisions after July 1, 1994 that contained a detailed classification of objects and enterprises by the possibility and extent of their privatization.

Let us remind in this regard that the state privatization programs singled out the sectors that were subject to a compulsory (with certain restrictions) privatization: the construction sector and the industry of construction materials, the food-processing and light industries, auto-motor transport, wholesale and retail trade, public catering and household services, hotel and tourist and housing and communal services, as well as incomplete objects under construction, indebted enterprises and the assets of liquidated enterprises.

Naturally, the sectoral structure of privatized enterprises could find itself under a certain impact of their directors' positions and the local authorities' stance (primarily of the agencies that managed the property), for they could either encourage or resist transformations of single divisions, structural units into independent economic agents through their leaving the structures of large enterprises, amalgamations, trusts, etc. That can be regarded as a contribution to the creation of competition environment and demonopolization of economy. However, due to sectoral specifics, these phenomena concerned to some extent just the service area, and, partly, some industry branches (light, food-processing, etc.), and the construction sector, whose enterprises were owned, accordingly, by municipalities and RF Subjects.

During the mass privatization period (1992-94), the local authorities have relatively few possibilities to seriously (from the quantitative viewpoint)

Influence the course of privatization of large enterprises being in federal ownership. As a rule, those were the enterprises of basic sectors previously controlled by the USSR and RSFSR authorities. In the course of time, however the local authorities were getting more capacity in terms of influencing the privatization process, however by that time the privatization in that particular spectrum has lost a great deal of its intensity.⁵The focus of attention was shifted, as a rule to the "residual" (i.e. remained unsold, due to various reasons) or specially fixed in the government ownership stakes of enterprises changed their form of ownership at the stage of mass privatization

rather than newly privatized enterprises, which was not shown in the official statistical reports of both Goskomstat and MGI of RF (the Ministry for State Property- earlier known as GKI-Goskomimuschestvo, alias the Committee for State Property).

In addition, the sectoral classification available in the said statistical reports practically fully coincides with the classification of sectors attributed by the state privatization programs to the sectors being subject to the compulsory privatization (plus the agrarian sector⁶). At the same time the noted classifications do not single out basic sectors of the economy (the fuel and energy complex, metallurgy, chemicals and petrochemicals, machine - engineering and metal-working sectors, wood-working and paper and pulp sectors, transport (by sub-sectors), exclusive of auto-motor transport), as well as the housing and communal sector and sectors of the social sphere (including research and related services).

That is why, proceeding from the above, the role of the factor of sectoral distribution of privatized enterprises in the evaluation of cross-regional differentiation of the privatization process in Russia appears passive, and it is unlikely to be overestimated.

That is why, proceeding from the methodology and apparatus of the Russian privatization process, the further sections will deal with regional specifics of the privatization process and its output by three main blocks: 1) "small" privatization; 2) "large" privatization, and 3) non-standard, or complementary, methods of privatization.

4.4. Small privatization

Practically in all the transitional economies, it was the retail trade and the sphere of services that were the starting object of the reform of ownership, and Russia has not become an exceptional case. It was yet in the late '80s that the rent with the consequent redemption of the rented objects and pilot auction sales appeared broadly practiced in the country. By early-1992, a. 200 enterprises in the area of trade, public catering and household services had been already privatized.

After the adoption of the first state privatization program in summer 1992 GKI attributed retail trade, public catering and household services enterprises to the sectors subject to the small privatization program. The main methods of its implementation became commercial tender and redemption of the earlier rented property (Table 4.4), while the employment of auction and incorporation (for the purpose of privatization of large objects, such as department stores or whole amalgamations of enterprises delivering household services) was practiced fairly rarer. It must be noted, however, that upon completion of the privatization of a small mass of small enterprises (since 1994), the role of incorporation has become to grow. The buyers of enterprises (objects) in

⁵ The impact of the relationship between the federal center and regions on the course of the privatization process in Russia between 1995 to 2000 is presented in p.4.1

⁶ That implies the enterprises designated for delivering production and technical services to agrarian enterprises, etc. that had not been subject to standard procedures of reforming kolkhozes and sovkhoses (1992-1993) with the granting of land and assets shares to their employees and the right to leave the formally transformed or maintaining their past status collective enterprises with those assets.

the frame of the program were granted with the right to conclude a long-term rental agreements (not less than for 15 years) on the facilities they occupied, providing that, as a rule, those facilities were not included in the composition of the assets purchased, with their consequent redemption (including the land lots on which the facilities were located).

TABLE 4.4

Main characteristics of small privatization in Russia between 1992 to 1995

| | Number of privatized enterprises, Thos. units | Increment in the proportion of privatized enterprises, as percentage pints | Methods of privatization (as % to the total number of objects privatized over the period in question) | | | | Composition of buyers (as % to the total number of objects privatized over the period in question) | | |
|-------------------|---|--|---|---------|------|---------------|--|--------------|--------------------|
| | | | Tender | Auction | Rent | Incorporation | Working collective | Legal entity | Private individual |
| 1992 | 28,1 | 36,4 | 45,2 | 19,2 | 32,1 | 3,4 | 60,0 | 26,5 | 13,5 |
| 1993 | 36,5 | 31,8 | 35,3 | 4,6 | 56,2 | 3,9 | 77,1 | 17,3 | 5,6 |
| 1994 | 10,85 | 6,7 | 52,0 | 0,9 | 31,7 | 15,4 | 53,3 | 36,5 | 10,2 |
| 1995* | 4,5 | 9,1 | 34,8 | 6,3 | 30,1 | 28,8 | 56,8 | 34,8 | 8,4 |
| As of 1.07. 1995. | 77,5 | - | 41,2 | 9,4 | 43,4 | 6,0 | 67,5 | 23,4 | 9,1 |

*the data on the structure of the methods and the composition of buyers as of the 1st half 1995

Source: the database of GKI RF, author's calculations

As the data above shows, it was labor collectives of the privatized enterprises that enjoyed a 30% rebate from the sales price if their company or JSC comprised not less than 1/3 of all the employees of the enterprise. By mid-1995 the labor collectives acquired as much as 2/3 of the enterprises that changed their ownership form in the course of the small privatization program⁷. Such a picture. However, was not characteristic nationwide. In St. Petersburg, Novgorod, Pskov, Tver, Vladimir Oblasts, Altay Republic, Toms, Tymen Oblasts, Tyva, Krasnoyarsk Krai, Irkutsk, Chita, Sakhalin, Jewish Autonomous Oblasts, Khanty-Mansy, Chukotka and Nenetsky AO=s, employees of enterprises became owners of less than a half of privatized enterprises.

During the first two years of radical market reforms, the small privatization was developing in a very rapid pace. Thus, in 1992 28.1 Thos. of enterprises (objects) changed their form of ownership, while in 1993- 36.5 Thos. The period between March to April 1993 became the time when the proportion of privatized enterprises exceeded 50%. That became a kind of milestone of the transition from the period when the authorities and local privatization agencies became more

⁷ In many cases, the formal recognition of a labor collective the purchaser of the object did not mean an exclusion of the new owners of outsider buyers that provided their financial resources to the employees at the enterprise to redeem that under terms of their consequent inclusion in the list of co-owners. Thus, in St. Petersburg only 10% of labor collectives managed to handle the matter without any help from financial sources from outside (Radygin A.D. Reforma sobstvennosti v Rossii: na puti iz proshlogo v budushee. M., Respublika, 1994 p. 75). In provinces, of course, the competition in the course of small privatization was not so intensive, and the respective index was higher. However, it appears impossible to consider any concrete figures without conducting interviews there.

attentive to the problem of profitability of the privatization of certain objects for local budgets and their consequent use.

The period between 1994 to 1995 was characterized with a general trend of a gradual slowdown of the small privatization that emerged since mid-1993. The trend can be attributed to a gradual exhaustion in the majority of the regions of the capacity of the enterprise subject to unquestionable privatization, and with the shift of the local authorities' attention from the purely privatization problems to the matters of identifying a reasonable circle of objects in municipal property, post-privatization behavior of enterprises, their impact on the situation in terms of local markets for consumer goods and services, and the role of privatization revenues for regional budgets.

In some locations, the redemption of real estate (facilities) (whose tenants became the buyers of the respective enterprises that had changed the form of their ownership) started. Thus, by mid 1994 in Volgograd new owners of almost 2/3 of privatized enterprises redeemed the respective real estate. By late –1994, of 3,172 real estate objects sold, only 1.5% fell on the rented facilities (while all the others- on idle ones).

During the next years (between 1996 to 1997) the significance of the small privatization was increasingly declining, for the great majority of objects were privatized by that time. According to the 1st All-Russia Census of retail trade and public catering enterprises, as of November 1, 1994, throughout the country only 13.3 Thos. of retail trade objects and 2.2 Thos of public catering objects remained in government ownership, or 15% and 35%, respectively, of the overall number of economic agents in the noted sectors.

It was newly created private enterprises (the fruits of the “grass-root” privatization) rather than once public and then privatized objects (the fruits of the “from – the - top privatization” that began to play a more important role. In terms of retail trade, one can speak about the boom of small wholesale consumer and food markets that notably supplanted both the classical trade in stores and the non-organized trade of the first years of reforms (networks of commercial kiosks, direct sales “from the wheels” by producers, small wholesale enterprises that had started to deal with retail trade, free street trade). In the conditions of the general slowdown of the privatization pace, transition to sales for real cash, a privatization of still public trade and services objects formed a specific reserve for the process, primarily from the viewpoint of completing regional and local budgets.

As a result, by early-1998, the proportion of private enterprises accounted for 85.9% of all the enterprises subject to the small privatization program, including 86.7% of those attributed to the trade sector, and 84.9% in public catering, and another 85% in the household services (in total- over 81 Thos. enterprises).

Despite the fact that the small privatization was close to its completion (and was completed already in some regions), the process was characterized with some regional differences. As of January 1, 1998, of all 11 Russian economic regions⁸, it was the Northern, Volga-Vyatka and Ural regions of which a relatively less proportion of privatized enterprises (under 80%) characteristic.

The detailed evaluation allows specification of the composition of the regions in which the proportional weight of privatized enterprises was notably lower than throughout the country on the whole. Six Russian regions (Mary-El, Mordovia, Kabardino-Balkaria, North Ossetia, Bashkortostan, Sakha (Yakutia) form a zone in which less than a half of enterprises were privatized, providing that in Kabardino-Balkaria and North Ossetia the respective index was under ¼. In 5 regions (Kirov and Ulyanovsk Oblasts, Kalmykia, Komi-Permyatsky and Yamalo-Nenetsky AO=s), between 40 to 50% of enterprises remained non-privatized, while in 13 regions (Komi, Karelia, Murmansk, Liptesk, Sverdlovsk Oblasts, Tatarstan, Tyva, Krasnoyarsk Krai, Khanty-Mansy, Evenk, Koryak, Chukotka AO=s) between 30 to 40%, and yet in another 2 regions (Chuvashia and Kaliningrad Oblast)- between 25 to 30% of enterprises.

The above evaluation shows that a significant (between 30 to 50% and more) proportion of potential objects for small privatization remain public in the areas of Far North and areas equaled to those that are subject to special provisions of the Inter-Republican Privatization Program for such locations (see Annex 2 to Main Directions of the State Privatization Program after July 1, 1994), as well as in the regions (mostly Republics), whose authorities distanced from the federal government's economic policy, due to different reasons.

Considering the correlation between the offer price to the original one by all the enterprise privatized since early-1992, which was reached as of July 1, 1998 (the respective nationwide index is a. 2/1), all the economic regions in Russia may be divided into 3 groups (in the diminution order) as follows: 1) North-West- 8.8, Far East-4.1, Northern (3.5) (maximal values); 2) Volga-Vyatka, Central-Black soil, Eastern Siberia, North Caucasus (between 2.8 to 2.0); 3) Western Siberia, central, Ural (between 1.9 to 1.7) and Povolzhye- 1.2 (the minimal value).

In terms of single regions, as of late-1997, the highest respective index rates were noted in Murmansk (26.2), St. Petersburg (15.4), Primorsky Krai (14.2), Omsk (13.6), Kurgan (13.4), Pskov (12.9) Sakhalin (11.7), Ryzan (10.8), Kamchatka (10.5) and Tomsk (10.1) Oblasts.

In Vologda, Leningrad, Kirov, Belgorod, Samara Oblasts, Dagestan, Komi-Pemyatsky and Chukotka AO=s, Buryatia, Khakassia, Krasnoyarsk Krai, Amur and Madadan Oblasts, the respective index was between 5 to 10, while in all other regions- under 5. The absence of the leading regions- Moscow and Nizhny Novgorod- in the list is fairly illustrative. Whilst the Russian

⁸ Here and below we mean the economico-geographic division of the country (previously known as RSFSR) inherited from the Soviet era into 11 regions and the exclave Kaliningrad Oblast that, together with the Baltic Republics formed the Baltic region). The new economico-geographic division of the country was introduced in June 2000, with the presidential Decree on establishment of 7 Federal Supra-regions. That determined the respective changes in statistical accounting and reporting that take place in 2000.

capital found itself among the 5 regions with the lowest excess of the sale price over the initial one (1.2), in Nizhny it was somewhat higher than the average coefficient nationwide (2.8), though practically the same as across Volga-Vyatka area as a whole. With all the differences in the approaches carried out by the regions, small privatization was implemented at a high pace there, proceeding from the purpose of the achieving the undoubted prevalence of private sector in the noted sectors.

At present small privatization evidently generally secured the launching of the privatization process in the country and encouraged the general liberalization of economic activities and normalization of the situation at the consumer market. Thus, it has accomplished its crucial mission at the initial stage of the transition of the national economy towards market. In 1998, the public and municipal enterprises provided only 7% of retail goods turnover, and their role was serious indeed in a number of territories with complex natural and climatic conditions: Chukotka (68.2%), Taimyr (52.1%), Komi-Permyatsky (34.2%) and Koryak (23.3) AO=s, Khabarovsk Krai (20.2%), and in another 27 Subjects the proportion of public and municipal enterprises in the retail goods turnover accounted for between 1/10 up to 1/5.

It is the problem of the ownership of real estate (in the course of the change of the ownership form buildings and facilities were leased to trade and service firms with a possibility of a consequent redemption) that is the most important issue for already privatized objects in the area of trade and services. Despite rather liberal procedures of acquisition of rented non-apartment facilities stipulated in the documents adopted in pursuance to the respective provisions of the State Privatization Program of December 24, 1993 and its Main Provisions after July 1, 1994, in practice the process proceeds rather slowly. For the small privatization, to a certain extent the issue of the ownership of real estate is the analogue to the problem of the redemption of land lots under medium- size and large privatized enterprises.

Other key issues for the objects of small privatization are: the maintenance of the enterprise's profile, access to credits, optimization of the correlation between different channels of delivery of commodity resources, relationship with local authorities (the great majority of those are not at all inclined to ensure the companies' full independence and apply a broad circle of economic and administrative mechanisms, including the rental status of real estate, price regulation for a certain circle of goods, control over the compliance with the privatization conditions.).

The factors that influence the privatization process on the whole, including political environment, will be of a serious significance to the further development of the enterprises that changed their form of ownership in the course of small privatization.

A certain impact may also have elections of the local representative and legislative bodies and especially of heads of Subjects' Administrations (the mass elections of those were held between 1995 to 1997), whose competence covers the approval of local budgets and privatization programs

and exercising control functions. The practice of the small privatization of 1993-95 (Karelia, Smolensk and Rostov Oblasts, Kostroma, Omsk) showed numerous examples of appeals against the local administrations' decisions on privatization of single municipal enterprises, its suspension, the facts of the return of earlier privatized objects under municipal ownership through their redemption, because of the violation by their new owners of the conditions of their functioning, or a serious decline in their performance after privatization. Those mostly were such enterprises and objects as small refurbishment and construction divisions, firms that delivered household services, bath and resort complexes, etc. In the conditions of the procrastinated house and communal reform and considering the need to organize the functioning of the housing fund assigned to municipalities by enterprises, the municipal authorities have an objective need in own such kinds of municipal property.

The inflation leap and the deterioration of the social environment in the course of the 1998 financial crisis made the privatized enterprises in the area of trade and services and the whole small business yet more vulnerable to the pressure on the part of local authorities. In many regions, the latter began to influence the markets for single goods and services, to attempt to form a municipal network of enterprises. That, naturally, constrained the preconditions for the continuation of the small privatization, and in a number of cases formed the motivation of a reverse nature. The example of the latter was the inquiry of the Volgograd Oblast Duma to the Constitutional Court of RF (1999) regarding the level of legitimacy of the privatization of municipal property on the grounds of the federal legislative base.

4.5. The “big” privatization

The general scheme of this stage of the Russian privatization was based upon the dispersion of a substantial part of the former public property into relatively small stakes, to be distributed among a great number of persons, due to the concrete variant selected. The choice of this option in 1992 was determined by the need to strike the compromise between the government and parliament and different social groups (employees at privatized enterprises (mostly in the production sphere), managers, civil servants, and the emerging private businesses).

The instrument of the diffusion of the property became privatization coupons (vouchers) distributed to the whole population in late 1992. The residents has a possibility to change them directly for shares of privatized enterprises at special voucher auctions or for securities of voucher investment funds (VIF) that then followed the same procedures of placement. There also was the possibility to sell vouchers for cash to other private individuals or commercial entities that later, again, used those at the voucher auctions. Given that under the big privatization the demand size was ensured by vouchers and monetary resources of residents and private investors, the offer side was ensured by incorporation, i.e. the organization of joint-stock companies (JSC) established on the basis of large and medium-size enterprises. That was made in a compulsory order, following

presidential Decree of July 1, 199 # 721. The process of incorporation was there even after the completion of the voucher privatization⁹.

The incorporation momentum differed from region to region. In all, nationwide a. 82% of the newly established JSC were created between 1993 to 1994. At the same time in Arkhangel'sk Oblast, Moscow, Tatarstan, Ingoushetia the respective index was 70-90% of all the JSC, in Kalmykia, Bashkortostan, Perm Oblast, Taimyr and Chukotka- 40-60%, St. Petersburg, Ivanovo, Nizhny Novgorod, Kemerovo, Tomsk, Magadan Oblasts, Sakha (Yakutia) and Dagestan- 20 to 70%.

In parallel to the State Privatization Program of June 11, 199, an impressive system of benefits for employees of the incorporated privatized enterprises (including their management singled out as a special category) was introduced: that implied the receipt of shares (free or at a beneficial price), the permission to pay for those partly with vouchers. The enterprises' authorized capitals were estimated proceeding from their face-value as per the balance sheet. In the course of the incorporation, 3 variants of benefits were provided.

Ist variant:- *all members of the working collective* are assigned with free privileged (non-voting) shares accounting for 1/4 of the enterprise's overall authorized capital, but worth in total not more than 20 minimal wages rates (MWR) per 1 employee. At the same time, common shares (their overall number could total up to 10% of the authorized capital) were sold at a price 0.7 of their face-value and with a 3-year installment; in all each employee could acquire those worth a total of no more than 7 MWR); as concerns the *enterprise administrative personnel*, under the terms of contracts concluded with them, they were granted the option for acquisition of common shares accounted for up to 5% of the authorized capital, but in total no more than equal to 2,000 MWR per employee; while *the rest of the shares* were object to free sales for vouchers or money.

IInd variant - *all the members of the working collective* were granted with a chance to redeem common shares amounted to 51% of the privatized company's authorized capital (according to the closed subscription procedures, i.e. no tender was provided) at a price of 1.7 of the shares' face-value, while *the rest* was subject to free sales for vouchers or money.

IIIrd variant - *all the members of the working collective* could purchase common shares accounted for up to 20% of the enterprise's authorized capital at a price of 0.7 of their value and with a 3-year installment, however not more than the amount equal to 20 MWR per each employee; at the same time, *a group of employees (since 1994- a group of any persons)*, should they undertake the responsibility for the fulfillment of the privatization plan and prevention of the bankruptcy of the enterprise, upon the consent of the working collective expressed at its meeting, was granted with a chance to acquire common shares at their face-value by the end of the year, providing that such

⁹ The quantitative part of the incorporation process between 1993 to 1997 across Russia as a whole is provided in Table 2

shares made up 20% (since 1994- 30%) of the authorized capital of the enterprise, while the rest was subject to free sales for vouchers or money.

The additional kind of benefits was the receipt (sales) of the stock reserved at the Incorporation Funds for Employees created for that specific purpose at the enterprises for the period of two years from the JSC registration date. The stock became available for its receipt of purchase by the employees at the privatized enterprises if the respective applications had been submitted until February 1, 1994. The maximal amount of such IFE=s made up 10% of the authorized capital for the enterprises that had opted for the Ist and IIIrd variants of benefits in course of their incorporation and 5% for those preferred the IInd variant.

Such a system of benefits later was fully confirmed by the State Privatization Program of December 24, 1993, and the respective amendments to that- by its Main provisions - after July 1, 1994.

In parallel to that, in the course of the big privatization, the mixed form of ownership was developing. The incorporation of numerous enterprises of the basic sectors, whose change of ownership form, in compliance with the State Privatization Programs, could be carried out only upon the special decision of the government authorities and according to special schemes, provided **the fixing of control blocks of the newly created JSC in the government ownership**. Those are complemented with the firms whose residual stakes were still owned by the government (those were not sold for real cash or vouchers, due to various reasons) and the companies in the authorized capital of which the “Golden Share” was included that provided the government with certain possibilities to influence the JSC operations¹⁰.

Hence, to characterize the regional specifics of the big privatization in Russia in the ‘90s, one should stress the significance of the following quantitative indices: 1) the proportion of enterprises opted for the IInd variant of benefits in course of their incorporation and those transformed from the group of rented enterprises in the total number of established JSC (as the indicator of the potential outspread of the privatization forms that ensured the insiders’ prevalence in the enterprises’ capital, at least right upon their privatization); 2) the proportion of the enterprises still directly (through the control or lose to that stake) or indirectly (by the mans of the “Golden Share”) controlled by the government. These two groups show the proportional weight of large and medium-size enterprises, whose primary post-privatization ownership structure most evidently was bearing potential obstacles to their adjustment to the new market environment and preconditions for conflicts between different groups of their shareholders.

The overall participation of insiders in the big privatization nationwide is given below

¹⁰ “Golden share”- a special kind of securities issued in the course of privatization of the former public enterprises in some sectors specifically for the government in its capacity as stockholder. This instrument enabled the government to veto the decisions made at a meeting of stockholders on the following matters: 1) amendments to the JSC’s Charter; 2) on its reorganization or liquidation; 3) participation in other enterprises or companies; 4) estrangement of assets as per the privatization plan. Should it be consequently sold, the “Golden share” turns into a common one.

TABLE 4.5

Distribution of JSC established in the course of the Russian privatization between 1992 to 1997, by variants of benefits

| | I st variant | II nd variant | III rd variant | special cases | rented enterprises |
|-----------|--------------|---------------|----------------|---------------|--------------------|
| 1992-93* | 22,5 | 75,5 | 2,0 | ... | ... |
| 1994 | 27,8 | 60,8 | 2,9 | 1,1 | 7,4 |
| 1995 | 36,4 | 48,0 | 3,6 | 3,8 | 8,2 |
| 1996 | 38,3 | 44,0 | 4,4 | 3,6 | 9,7 |
| 1997 | 46,8 | 39,1 | 2,0 | 4,8 | 7,3 |
| 1994-1997 | 31,0 | 56,2 | 3,1 | 2,0 | 7,7 |

*As of January 1, 1994 (according to the GKI data base, the data on 17 regions missing)

Source: the data base of GKI RF; Statisticheskiye bulleteni o khode privatizatsii gosudarstvennykh i municipalnykh predpriyatiy v RF za Yanvar- Dekabr' 1994 (pp.55-57), 1995 (pp.41-43); 1996 (pp.41-43), 1997 (pp.41-43). Moscow, Goskomstat, Author's calculations.

In terms of regions, the participation of working collectives and management of large and medium-size enterprises looks as follows:

According to results of the incorporation of 1992-93, it was only 5 regions (Mary-El, Ivanovo, Penza, Kurgan, Kamchatka Oblasts) in which less than a half of all the incorporated enterprises opted for the **II nd variant of benefits**. Yet in another 8 regions (Arkhangel'sk, Orel, Smolensk, Kirov, Rostov Oblasts, Buryatia, Sakha (Yakutia), Koryak AO) the proportion of such enterprises accounted for 50% to 60% (with the average rate nationwide of 75.5%). The opposite pole was occupied with 29 regions in which over 80% of enterprises favored this variant. In Karelia, North Ossetia, Komi-Pemyatsky AO, Amur Oblast the proportion of such enterprises made up over 90%, while in Ingoushetia, Taimyr, Ust-Ordynsky and Aginsky Buryatsky AO=s the II nd variant of benefits was preferred by all the incorporated enterprises.

Judging the mass of the data for the period of 1994-97 across all the Russian regions on the relatively smaller proportion of enterprises that opted for the II nd variant in the course of their incorporation in the overall number of newly created JSC, it was 27 Subjects of which the less index is characteristic: in Karelia, Komi, Novgorod, pskov, Bryansk, Ivanovo, Orel, Ryazan, Smolensk, Tver, Kirov, Nizhny Novgorod, Mary-El, Mordovia, Tatarstan, Vogograd, Penza Oblasts, Ingoushetia, Stavropol Krai, Bashkortostan, Kurgan, Orenburg Oblasts, omi-Pemyatsky AO, Altay Republic, Kuzbass, Sakha (Yakutia), Jewish Autonomous Oblast less than 50% of the newly created JSC opted for the II nd variant in the course of their incorporation vs. the average rate of 52.6% noted across Russia, with Tatarstan breaking a record 1.1% rate. The group of territories with the maximal respective rate (70% and more) comprised 16 regions (Nenetsky AO, Murmansk, Kostroma Oblasts, city of Moscow, Voronezh, Samara Oblasts, Adygea, North Ossetia, Udmurtia, Omsk, Irkutsk, Amur Oblasts, Khakassia, Tyva, Ust-Ordynsky Buryatsky, Koryaksky AO=s).

There also is a large group of regions of which rather a large proportion of **JSC transformed from the rented enterprises is charateristic**. In Dagestan, Astrakhan and Sakhalin Oblasts the

proportion of such enterprises accounted for 20 to 28% of all the newly created JSC, while in another 25 regions (Komi, St. Petersburg, Novgorod, Pskov, Vladimir, Orel, Ryazan, Smolensk, Yaroslavl, Kirov, Nizhny Novgorod, Tambov, Volgograd Oblasts, Mary-El, Mordovia, Ingoushetia, North Ossetia, Krasnodar and Stavropol Krai, Tomsk Oblast Krasoyarsk, Primorsk, Khabarovsk Krai, Amur, Magadan Oblasts)- between 10 to 20% (nationwide- 7.7%).

Whilst estimating the aggregate share of enterprises whose primary post-privatization structure could be dominated by insiders, it was just 10 regions (Komi, Pskov, Penza, Kurgan Oblasts, Tatarstan, Bashkortostan, Komi-Pemyatsky AO, Altay Republic, Kuzbass, Sakha (Yakutia), Jewish Autonomous Oblast) in which such enterprises accounted for less than 50%. In another 13 regions (Arkhangel'sk, Bryansk, Ivanovo, Ryazan, Tver, Kursk Oblasts, Mary-El, Mordovia, Ingoushetia, Stavropol Krai, Orenburg Oblast, Agynsky Buryatsky and Chukotka AO=s) such enterprises made up between 50 to 60% (nationwide- 63.9%). The absolute minimum was registered in Tatarstan- 5.6%. On the contrary, in Nenetsky AO, Samara Oblast, Adygea, Dagestan, North Ossetia, Primorsky Krai, Amur, Sakhalin Oblasts, Ust-Ordynsky, Buryatsky and Koryak AO=s, the proportion of such enterprises exceeded 80% (in Koryak AO it made up 100%, notably, thanks to the IInd variant of benefits, without the establishment of JSC through the redemption via rent).

Later many experts shared the view that it was the provision of an impressive complex of benefits to working collectives of the incorporated enterprises that paved the way for the mass emergence of JSC with the capital close for investors-outsiders or with its dispersion, along with the actual strengthening of their managers' positions in either case, which heavily battered the further promotion of market reforms.

The closed subscription by employees and administration to their enterprises' shares, of course, became a more serious instrument for dispersing the former public property compared with voucher auctions and voucher investment funds. According to the data of GKI RF, by July 1, 1994 (the expiry date for the privatization voucher), a 3/4 of enterprises that passed through incorporation from the start of privatization opted for the aforementioned IInd variant of benefits that provided the redemption of their control block by the means of closed subscription. This allows statement that the transformation of public property in Russia at the stage of its primary distribution (1992-94) was taking place under the prevalence of working collectives and administrations. That helped foster the emergence of various collective enterprises, corporations of closed type and companies with the ownership of the employed staff.

At the same time, though being in excess in terms of their quantity, most likely the major part of the authorized capital of all the mass of incorporated enterprises falls on those of them that used other variants of benefits. Thus, according the results of 1994, 60.8% of the enterprises that experienced privatization through incorporation that year opted the IInd variant of benefits.

However their proportion in the overall authorized capital accounted for 18.8. Even considering 7.4% of JSC created through their transformation out of rented enterprises, which in the overwhelming majority of cases meant the prevalence of insiders, the total proportional weight of enterprises controlled by insider owners in the aggregate authorized capital of newly established JSC, anyway, made up a. 22%. Another picture was unlikely to be noted during the preceding 1992 and 1993. Obviously, ordinary employees and managers at the large enterprises that possessed a greater production capacity and, therefore, a bigger authorized capital mostly were incapable to acquire the control block under the closed subscription - that is why they had to accept the less large-scale Ist variant.

It is practically impossible (without a special research) to estimate the proportion of enterprises that employed a certain variant of benefits in the volume of employment, resources consumed, and output in a certain sector or region.

On the one hand, it is broadly known that it was recently privatized monsters of the planned economy that experienced the most dramatic production decline and downsizing, particularly in terms of their staff (the defense sector, the majority of sub-sectors of the civil machine building, light industry). On the other hand, as the following events showed, thanks to their profile, connections with authorities and other businesses, it was large privatized enterprises in export sectors as well as nationwide or local monopolies that adjusted themselves to the new market environment faster than the others and proved to be the most stable structures in financial terms and leaders in the stock market between 1995 to 1997.

At the same time the a.m. evaluation of the outspread of the potential insider control over the newly established JSC (at least in the course of a short-term post-privatization period) in terms of regions shows that the group of the regions with a lower (relative to the nationwide rate, no more than 60%) proportion of such enterprises mostly comprises the least successful (from the viewpoint of their adaptation to new conditions and their consequent development) Oblasts (Arkhangel'sk, Pskov, Tver, Bryansk, Ivanovo, Ryazan, Kursk, Penza, Kurgan, Orenburg, Kemerovo, plus Stavropolsky Krai) and national Republics (Komi, Mary-El, Mordovia, Ingoushetia, Tatarstan, Bashkortostan, Altay Republic, Republic of Sakha (Yakutia), plus Jewish Autonomous Oblast)¹¹ .

The reasons for such a situation are fairly evident. The depressive nature of economic development (the utmost production decline, sharp arrears crisis, backwages for months, no chances for secondary employment and, as a result, low incomes of the employed population) in these regions made it impossible to increase the proportion of the enterprises employing the IInd variant of benefits in the course of their incorporation compared with the nationwide rate, because in many

¹¹ According o the data for the period 1994-97 that mainly coincides with the incomplete data for 1992-93 (based upon the GKI data base as of July 1, 1994), that mostly was the outcome of the use of the IInd variant of benefits in the course of incorporation.

cases that required the payment for the acquired stock with cash (even if the price was privileged)¹². Such a situation was characteristic for both the Oblasts and the aforementioned Republics of RF (Mary-El, Mordovia, Jewish Autonomou Oblast)¹³. In a number of cases with more favorable trends in economic development in place) one could argue with a greater certainty that the regions' authorities were willing to reduce to minimum the use of the national privatization model procedures, including also the set of benefits for the collectives at the incorporated enterprises (the utmost case was Tatarstan). At the same time it must be emphasized that one speaks mostly of the establishment of the insider control through the employment of the IInd variant of benefits in the course of incorporation, for in the majority of cases the creation of JSC on the basis of leased enterprises was the result of the activity of heads of enterprises and their collectives between 1989 to 1991, i.e. prior to the start of the implementation of the privatization program. That is indirectly proved by rather a great variety within the group of regions with the increased proportion of JSC created on the basis of leased enterprises.

The comprehensive account of all the noted circumstances allows to doubt the correctness of the thesis that it was the compromise privatization scheme that has led to the emergence of a very big and inefficient sector of collective enterprises that became the major obstacle on the way of modernization of the production apparatus, attraction of external investment, and structural reforms needed to renew a sustained economic growth. Furthermore, many of such enterprises soon afterwards experienced the effect of the processes of redistribution of ownership in favor of their managers and investors-outsiders, which determined their gradual convergence with regular joint-stock companies in terms of corporate governance practices.

It would be more correct not to exaggerate the role of the enterprises that opted for the IInd variant of privileges in the course of their incorporation in the country's economic development in the late '90s, while not excluding at all the possibility of such an impact on single regions and sectors.

The IIIrd variant of benefits in the course of incorporation whose conditions were intended to encourage the appearance at the privatized enterprises of mnagers capable to exercise anticrisis management for the sake of avoiding their bankruptcy showed a misearble outspread across the country. The main reason for that ecame that the management at enterprises enjoyed every chance to keep their control over their enterprises by using other incorporation schemes, without undetaking any responsibility. The emerging private sector did not provide any substantial number

¹² In some of the a.m. regions, the decreased share of enterprises with the insider control is an indirect result of the employment of special incorporation schemes in the main sectors under which the compulsory integration into holdings excluded the possibility of using the IInd variant of benefits in the course of incorporation. Examples: Arkhangel'sk Oblast (forestry) and Kemerovo (coal sector)

¹³ For experts in politology it ill become fairly evident a significant (though far from complete) overlap of the list of regions with the group of territories that from a stable electoral base for the leftist opposition in the country. One should not exclude, either, that the less outspread of the insider control over JSC (compared with the respective average rate

of managers, either,- partly there were more promising niches for those, partly due to the absence of managers capable to carry out practical functions of anti-crisis management at the Russian privatized companies mostly attributed to the real sector.

At the same time, the role of the IIIrd variant was more considerable in some single regions. Between 1992 to 1993, the higher proportion of the enterprises that selected the IIIrd variant of benefits in the course of their incorporation was noted in: Mary-El, Kirov, Kurgan, Magadan Oblasts (10 to 20% of the newly created JSC), Adygeya, Dagestan, Kamchatka Oblast, Chukotka AO (5 to 10%) (for reference: the average rate across Russia- 2%). between 1994 to 1997, between 10 to 20% of all the newly created JSC in Karelia and Nizhny Novgorod opted for this variant, while in St. Petersburg, Kostroma, Lipetsk, Volgograd, Perm, Kaliningrad the respective rate was between 5 to 10%. A clear leader in the employment of the IIIrd variant of benefits in the course of incorporation became Bashkortostan here a. 1/3 of all the JSC established within that period opted for the noted variant (while in Russia on average- 3.1%).

On the whole, the list of the regions over which this incorporation scheme spread to a greater extent compared with the average index noted throughout the country is fairly random. At the same time the period between 1994 to 1997 can be characterized with the presence in the list of some regions that are considered a shining example of promotion of market reforms (St. Petersburg, Nizhny Novgorod, Perm Oblast), while for the period between 1992 to 1993 the presence of several regions of the Volga-Vyatka and Far - East supra regions is notable.

4.6. The government's maintenance of property rights in the process of incorporation.

It was the emergence of a whole set of corporate governance models and specifically the mixed private and government control and its spreading throughout the country (Table 4.6) that became the major characteristic feature of the reform of ownership relations in the '90s. Notably, the presence and functioning of enterprises with such a structure of ownership and management in a whole number of the RF regions became critically important for their economic development.

nationwide) that also implies the involvement of employees in the ownership of capital, played its role (of course, not a key one) in the shaping of such a political orientation of local residents.

TABLE 4.6

The creation of joint-stock companies with the maintenance of government participation in the course of privatization in Russia between 1993-1999

| | The number of enterprises with their control block fixed in the government ownership | | The number of enterprises with the "Golden Share" in their authorized capital | |
|-----------|--|---|---|---|
| | units | Proportion in the total number of created JSC, as % | units | Proportion in the total number of created JSC, as % |
| 1993 | 414/439* | 3,2 | 198/204* | 1,5 |
| 1994 | 1496 | 15,2 | 792 | 8,1 |
| 1995 | 698 | 24,8 | 429 | 15,2 |
| 1996 | 190 | 16,9 | 132 | 11,8 |
| 1997 | 84 | 16,9 | 58 | 11,7 |
| 1998 | 142 | 39,4 | 28 | 7,8 |
| 1999 | 101 | 39,1 | 42 | 16,3 |
| 1993-1999 | 3125** | 11,0** | 1679** | 5,9** |

* -According to some more recent data, 439 JSC with their control blocks fixed in the government ownership and 204 JSC with the Golden Share; however in terms of regions there is a data on 414 and 198 enterprises, respectively: this discrepancy, perhaps, can be attributed to the inclusion of the data for 1992 (when incorporation began) in the data for 1993;

** - calculated as the amount of values for each year as of the noted period, and does not mean the number of JSC with the government participation by early 2000, for by now the main part of the originally fixed stakes have been already sold.

Sources: Sravnitelnye pokazateli ekonomicheskogo polozheniya regionov Rossiyskoy Federacii. Moscow, Goskomstat Rossii, 1994, pp. 326-328; Statisticheskiyeulleteni o khode privatizatsii gosudarstvennykh i municipalnykh predpriyatiy v RF za Yanvar'- Dekabr' 1994 (pp. 28-30), 1995 (pp. 38-40), 1996 (pp. 38-40), 1997 (pp. 38-40), 1998 (pp. 58-61, 121-124), 1999 (c. 58-61, 121-124). Moscow, Goskomstat Rossii,, author's calculations

The evaluation of the maintenance of the government influence in JSC upon privatization by the aggregate data for the period 1993 to 1999 allows drawing the following picture:

Of 3,125 JSC with their stakes fixed in the government ownership, the absolute majority (1,859 or 59.5%) falls on 17 regions, including Kemerovo Oblast (276 JSC), Tatarstan (200), Tymen Oblast (196 (along with Khanty-Mansy -101, Yamalo-Nenetsky -37 AO=s) Oblast, Kabardino- Balkaria (158), Osk (126), Nizhny Novgorod (116), Novosibirsk (111) Oblasts, city of Moscow (107), Krasnodar Krai (87), Sverdlovsk Oblast (70), Komi (67), Saratov (65), Rostov (64) Oblasts, Bashkortostan (60), Ivanovo (53), Irkutsk (52), Chelyabinsk (51) Oblasts.

Of 1,679 JSC with the Golden Share, the absolute biggest number (878, or 52.3%) falls on 10 regions, including Bashkortostan (260), Tatarstan (171), Moscow (144), Tymen (71) (along with Khanty-Mansy-12, Yamalo-Nenetsky -26 AO=s) Oblast, Krasnodar Krai and Novosibirsk Oblast (44 each), Krasnoyarsky Krai (40), Mosco Oblast (36), Stavropolsky Krai, Saratov Oblast (34 each).

Whilst estimating the level of the governmental influence on the situation in a region and proceeding from the proportional weight of JSC with different forms of the state participation in their capital in the total number of JSC created over 7 years (1993-999), it would be expedient to single out the regions with the biggest government influence (on 1/5 and more of all the newly established JSC, considering the both forms of influence together) and to divide the noted regions into two groups by the type of the government impact:

1) **with the prevalence of the government impact through fixing the control block** (Karelia, Komi, Tatarstan, Ingoushetia, Kabardino-Balkaria, North Ossetia, Kemerovo, Novosibirsk, Omsk, Tymen Oblasts, Khanty-Mansy, Yamalo-Nenetsky, Chukotka AO=s; with Kabardino-Balkaria's and Chukotka AO's record- breaking maximal proportions of JSC whose stakes are fixed in the government ownership (67.8% and 53.3%, respectively); while in the other a.m. regions the respective proportion ranges between 15 to 40%).

2) **with the prevalence of the government impact through the issuance of “the Golden Share”** (Moscow, Bashkortostan, Chita Oblast, with the maximal proportion of such JSC nationwide noted in Bashkortostan (55.2%), followed by Tatarstan (31.4%).

As concerns other regions in which the total proportional weight of JSC with the maintenance of the government influence became under 1/5, it must be noted that the overwhelming majority of them experienced the fixing of the control block in the course of their creation more frequently than the inclusion of the “Golden Share” in their authorized capital, except Kostroma, Kirov Oblast, Mary-El, Buryatya, Khakassia, Krasnoyarsk Krai, Amur Oblast. At the same time, in St. Petersburg, Novgorod, Pskov, Vladimir, Orel, Perm Oblasts, Karachaevo-Cherkessia, Stavropol and Primorsky Krai, Nenetsky and Aginsky Buryatsky AO=s, the use of the both forms of the government impact was approximately equal, while in Samara Oblast, Sakha (Yakutia) and a number of Autonomous Okrugs there was no issuance of the “Golden Share” at all.

It is also interesting to note the group of 25 regions in which the total proportional weight of JSC with the maintained government influence appeared minimal (under 1/10). The group comprises: Arkhangel'sk, Vologda, Kaliningrad Oblasts, St. Petersburg, Bryansk, Kaluga, Orel Oblasts, Mordovia, Chuvshia, Kirov, Voronezh, Kursk, Tambov, Volgograd, Penza, Samara, Rostov Oblasts, Dagestan, Karachaevo-Cherkessia, Altay Republic, Altay Krai, Khakassia, Sakha (Yakutia), Ust-Ordynsky and Aginsky Buryatsky AO=s. If neglecting some Autonomous Okrugs with their very small economic role, it was Samara Oblast that reported a record- breaking minimal value of 1.5%.

In the post-privatization period, the difference between the regions in terms of the level of maintenance of state control over the corporate sector was determined by two main factors:

- the local economy's profile emerged by early '90s in the framework of the integral economic complex of the former USSR and RSFSR. Along with the provisions of the state privatization programs of 1992, 1993 and its Main Provisions after July 1, 1994 that contained a detailed classification of objects and enterprises in terms of the possibility and level of their privatization, the local economy's profile determined schemes of changes in ownership relations in the whole number of basic sectors. A shining example of that is Western Siberia: in the region, the government maintained its ownership control over 1/4 of the newly created JSC, including a 1/5 of all the JSC in whose capital the government participates through the control block. The fuel and

energy complex, defense sector and related civil machine building determined the profile of the economic regions and its Subjects: Tumen (oil output), Kemerovo (coal mining and machine building), Omsk (oil processing), Novosibirsk (machine building and defense industry) Oblasts;

- the status of a certain Subjects of RF that determined the political weight of its authorities in terms of influencing the choice in favor of a concrete variant of privatization of a certain enterprise. In this sense, the presence of the city of Moscow (the country's capital), 7 Republics and 3 national Okrugs in the group of 16 territories in which upon the incorporation the government maintained its control over more than 1/5 of the newly created JSC, is very symptomatic. The group comprises both the RF Subjects that were in a long and rather serious confrontation with the federal center (Tatarstan, Bashkortostan, Ingushetia) and those that politically were always loyal to the central government (Karelia, Komi, Kabardino-Balkaria, North Ossetia).

An additional proof to the significance of the latter factor is the practice of transformation of public and municipal unitary enterprises into open JSC with the fixing of their 100% stock in the government or municipal ownership, which in compliance with the new (1997) law is considered a separate method of privatization. Between 1998 to 1999 the procedures were applied to 28 enterprises (in 1998- 18, and in 199- 10 ones. The absolute majority of those (5) are located in Bashkortostan, 2 - in Udmurtia, and 1- in Sakhalin Oblast.

Since 1998, the state reporting has begun to inform of the number of JSC in the course of whose establishment their stakes were subject to trust or assignment to a holding company. Just for 2 years (1998-1999) there were 50 enterprises that became subject to such actions (28- in 1998 and 22- in 1999).

The biggest number of them is located in Tatarstan (16), Arkhangel'sk (11), St. Petersburg (6), Bashkortostan (4). At the same time in 1998 in Tatarstan (by 5 enterprises), Bashkortostan, Arkhangel'sk Oblast and Chukotka AO (by 2 enterprises in each region) there was a parallel (in the frame of the same JSC) fixing of their stakes in the state ownership and assignment of those to a holding company. In 1999, the stakes of 2 OAO located in Bashkortostan (Ufimsky Remontno-Mechanichesky zavod and "Mishkinsk molzavo" were trusted, along with the inclusion in the authorized capital of the former of "Golden Share" and fixing the control block of the latter in the state ownership.

4.7. Non-standard (complementary) methods of privatization

Let us remind that yet in compliance with the first privatization program of June 11, 1992, among privatization methods there were commercial investment tenders (investment auctions). The completion of the voucher privatization by mid-1994 meant the transition to a new stage of the privatization process in Russia. Proceeding from the Main Provisions of the State Privatization Program of public and municipal enterprises in RF after July 1, 1994, its core item should have

become the production restructuring on the basis of attraction of investment, primarily to the real sector. That was intended to be accomplished through the use of such new methods of privatization, as sales of land, real estate, and indebted enterprises. They were designated to raise the budget revenues both by ensuring additional current receipts and through the increase in tax revenues in the medium-term prospect, upon the emergence of an efficient owner. It was envisaged that on the basis of the combination between the privatized enterprise and the respective land lot (real estate object) such an owner could have become successful in renewing production growth.

In practice, the proportional weight of enterprises (objects) privatized using the a.m. methods (including also investment tenders) was gradually growing in the overall structure of the enterprises privatized after 1995. However, because of a significant fall in the absolute number of privatized enterprises (objects) compared with the period between 1993 to 1994, the proportion of enterprises (objects) privatized using the aforementioned methods in the overall mass of enterprises privatized since 1993 totaled less than 9%. Below, each method is studied in a greater detail, in terms of regions.

Real estate sales

Of all the non-standard and complementary methods of the Russian privatization, it was the sales of real estate that was the most popular method. Between 1995 to 1999, over 5.5 Thous objects were privatized in this way (of which 1,564- in 1995, 1,145- in 1996, 1,056-in 1997, 1,014- in 1998, and 733-in 1999). This method covered the majority of the regions (except 15 Subjects, mostly small national and territorial entities in the Asian part of the country). At the same time the geography of sales of real estate was steadily narrowing from year to year. Give that in 1995 there were only 21 regions in which none of real estate objects was privatized, in 1999 there were 54 such regions.

The privatization of real estate was taking place most intensively in Sverdlovsk Oblast (538 units for 5 years), Krasnodar Krai (510), Saratov (449), Vologda (409), Kemerovo (334), Tver (265), Yroslavl (173), Rostov (145), Ivanovo (141) Oblasts. The proportion of these 9% regions was roughly accounted for 54% of all the real estate objects privatized nationwide between 1994-99. During the last two years (1998-99) the leaders of this kind of privatization were: Krasnodar Krai (267 units), Vologda (201), Sverdlovsk (144), Saratov (14), Tver (118) Oblasts, Bashkortostan (102). The share of these 6 regions in the total number of real estate objects privatized between 1998 to 1999 roughly was accounted for 55%.

Since 1998, the state statistical reports began to provide the data on the area of the redeemed real estate objects. For the 2 years across the country as a whole the area of privatized real estate objects made up 4,087 Thous. sq.m. (including 1, 235 Thos. in 1998 and 2,852-in 1999). One should note practically a completely lacked similarity between the a.m. list of the regions -leaders with the 5 regions whose aggregate proportional weight in the overall area of the redeemed real

estate objects made up 57% (no less than 100 Thos. sq.m. in each): Chelyabinsk Oblast (1,733 sq.m.), Khanty-Mansy AO (251 Thos.), Sverdlovsk Oblast (131 Thos.), Altay Krai (121 Thos.), and Rostov Oblast (104 Thos.)

Investment and commercial tenders

These methods were ranged the second in terms of their outspread among other non-standard methods. Between 1993 to 1997, a. 1 Thos. of enterprises were privatized using them (558-in 1993, 261- in 1994, 109- in 1995, 37-in 1996, 14- in 1997). Similar to the privatization through the sales of reale estate objects, investment tenders took place in the majority of the Russian regions. Only in 20 of them (mostly national republics and autonomous Okrugs) no enterprises were privatized through investment tender between 1993 to 1997. However, the geography of this method was narrowing steadily from year to year: from 62 regions in 1993 to 10 in 1997). The most intensive use of investment tenders was noted in: Sakha (Yakutia) (112)¹⁵ , Chita (103), Saratov (91), Nizhny Novgorod (60), Moscow (54), Sverdlovsk (45), Kemerovo (36), Tver (34) Oblasts, Krasnoyarsk Krai (33), which overall make up 58% of all the enterprises privatized through the use of this method over the 5 years.

Whereas the main purpose of investment tenders was the attraction of investments, one should take into account that their main volume could be ensured by selling stakes of JSC created on the basis of large and medium-size enterprises¹⁶ privatized at that time or earlier rather than through sales of single enterprises (objects) per se, which could be possible only with respect to small and some medium-scale property complexes that were of a certain interest to the local businesses only. The statistical reports of Goskomstat split the sales of stock at an investment tender without foreign investors and the sales of those to foreign investors into two independent categories.

The sales of stock at an investment tender without foreign investors:

1995- were carried out in 34 regions, with Khabarovsk Krai as an evident leader (in 1995, all 100% of the stock were sold through the investment tender without foreign investors) followed by Kaliningrad (92.4%), Pskov (91.4%), Chelyabinsk (90.5%), Karachaevo-Cherkessia (73.7%), Vladimir (70.0%), Orel (65.7%)Oblasts. In another 10 regions (Komi, St. Petersburg, city of Moscow, Leningrad, Kaluga, Kostroma, Tver, Rostov Oblasts, Mary-El, Buryatia) the respective index made up between 20 to 40% (with the average one across the country- 7.3%);

1996: were carried in 19 regions, with Karelia's and St. Petersburg's leadership in this respect (all the stocks were sold at investment tenders without foreign investors) followed by Buryatia (78.8%), Novosibirsk (69.2%) and Moscow (50.1%) Oblasts. Yet in 5 regions (city of

¹⁵ All the investment tenders in the region were held in 1993, which allows skepticism regarding the reliability of this statistical data

¹⁶ The statistical information published by Goskomstat provides the data on the sales of stock of only newly (during the year in question) privatized JSC, while the sales of "residual" or earlier specially fixed in the state ownership stake that are deal with by RFFI are not considered here.

Moscow, Dagestan, Kemerovo and Irkutsk Oblasts, Krasnoyarsk Krai) the respective index made up between 20 to 40% (with the average one across the country-14.8%);

1997: 10 regions, with Tambov all the stocks were sold at investment tenders without foreign investors) followed by Irkutsk (82.3%), Belgorod (78.1%), Moscow (71.8%) Oblasts. In another 2 regions (Tatarstan and St. Petersburg) the respective index made up 30.4% and 23%, respectively (with the average one across the country-16%);

The sales of stocks at an investment tender to foreign investors:

1995: were carried out in 2 regions: in Vologda Oblast, of all the stock sold, 4.9% of stock was sold using this instrument, while in Kaluga Oblast -2.4% (with the average index noted across the country-2%);

1996: were carried out in 2 regions: in Kalinigrad Oblast, all the stocks were sold using this instrument, while in St. Petersburg - less than 1% (with the average index noted across the country-1%).

While estimating the role of investment tenders as an additional source for funding the investment process, one should acknowledge the fact of their extreme insignificance. In 1997 the volume of investment received from the sales at investment tenders (considering also the obligations undertaken in the prior years) made up just 1.3% of all the investment in capital assets (between 1994 to 1996- under 1%) The main condition that can explain the insignificant role of privatization in attraction of investment at the microeconomic level is a limited (compared with the production's needs) capacity of the national capital, which, in addition had a great number of more attractive and less risky areas to invest within the country (foreign exchange market, government bonds, speculative operations with blue chips at the stock market), and capital export. As concerns other discouraging (with respect to investment) factors, one should also mention the orientation of the privatization policy in the center and in the regions which was mostly fiscal, imperfect corporate governance procedures, the ongoing struggle for control at many enterprises, the whole complex of reasons of a more general nature that explain the serious foreign investors' moderate attitude towards investing in Russia. In addition to that, a great part of investors- even those who participated in investment tenders- showed shining examples of unscrupulous behavior by breaking the obligations undertaken¹⁷.

The low efficiency of investment tenders demonstrated by the practice of 1993-96 naturally led to their cancellation, in compliance with a new law "On privatization of public property and on fundamentals of privatization of municipal property" (# 123-FZ, signed by the President on July 21, 1997) and their substitution with *commercial tenders with investment and/or social conditions*¹⁸

¹⁷ Of 1,084 stakes sold between 1992 to 1997 328 (or over 30%) were returned to the government by the court, mostly because of the buyers' violation of their promises.

¹⁸ As an independent method of privatization, the commercial tender was used vigorously yet between 1992 to 1997 (Tabl. 2) mostly in the course of the small privatization: at that time, the buyer would undertake certain obligations, most frequently on maintenance of the enterprise's profile. However, there is no statistical data available on the nature

that implied the assignment of ownership rights to the winner in the tender only upon his accomplishment of the respective obligations.

As a result, in 1998-99 the factor of the seller putting forward investment conditions in the course of sales of public and municipal enterprises started to be practiced more frequently. Of 424 enterprises that changed their form of ownership through commercial tenders over the years in question (in 1998- 233 enterprises and in 1999-191 ones), 174 were privatized with investment conditions (88 and 86 enterprises, respectively), 155- both with investment and social conditions (80 and 75), and 95-with only social conditions (65 and 30, respectively). Hence, the absolute number of enterprises whose privatization necessitates the fulfillment of investment conditions was 329 units, i.e. roughly was as much as twice in excess of the number of enterprises that had experienced the investment tender procedures during the prior 3 years.

Commercial tenders were held most frequently in the following Russian regions:

Commercial **tenders with investment conditions only**: in Moscow Oblast (on 66 enterprises), Bashkortostan (44) and Kemerovo Oblast (18) (in total- a. 3/4 of all the enterprises privatized using this method);

Commercial tenders with **both investment and social conditions**: in Irkutsk (on 27 enterprises), Nizhny Novgorod (25), Kemerovo (11) Oblasts and St. Petersburg (10) (in total- a. 1/2 of all the enterprises privatized using this method);

Commercial tenders with social conditions only: Novosibirsk Oblast (on 12 enterprises), Altay Krai (10), and Udmurtia (9), Bryansk (8) Oblast (in total- a. 2/5 of all the enterprises privatized using this method).

In 1998, for the first time since the start of the market reform, the official statistical reports on privatization began to comprise the classification of enterprises privatized at a **commercial tender with social conditions, by the types of the latter**.

The statistical data does not provide a complete picture, however for the data available for 1998-99 allows to draw the conclusion on the prevalence of the conditions implied the maintenance of a certain number of jobs or creation additional ones (noted in 12 regions, by 24 enterprises, of which 5- in Tumen Oblast (including 1- in Khanty-Mansy AO), 4 enterprises - in Astrakhan Oblast and Altay Krai each), restrictions on the change in the profile of operations of objects of social and cultural, communal and household or transportation services to the population (noted in 6 regions on 14 enterprises, of which 6- in Altay Krai). Only 3 enterprises were privatized under the terms of implementing measures on protecting environment and public health (in Karelia, Novosibirsk and Omsk Oblasts), and the same number- under the terms of re-training and raising the staff's qualification (2-in Novosibirsk and 1 - in Volgograd Oblasts), and yet another 1- under the conditions of maintenance of the existing system of protection of health and labor of its staff (in

Novosibirsk Oblast). There was no enterprises privatized under the terms of restrictions on the discontinuation of the use of objects of social and cultural, communal and household or transportation services to the population.

At the same time, between 1998 to 1999 there was no enterprises privatized through the commercial tender with different conditions in 42 regions (including Moscow and almost all the AO=s).

The financial turmoil in summer- autumn 1998, the uncertainty of the political situation, the negative reputation that investment tenders earned prior to the new privatization law, including a great number of trials on cancellation of their results have led to the situation in which in 1998-99 the sales of stock at commercial tenders with investment conditions became very rare, thus being notably inferior to the practice of 1995-97 in terms of their geographic pattern.

The sales of stock at commercial tenders without foreign investors:

1998: were carried out in 3 regions. In Tatarstan, of all the stock sold, 16.2% was sold at a commercial tender without foreign investors, in Moscow- 4.2%, in Arkhangel'sk Oblast- under 1 % (with the average index nationwide- 0.5%);

1999: were carried out in 6 regions, with Chuvashia breaking every record with the sales of 68% of all the sold stock at commercial tenders without foreign investors and Ivanovo Oblast (34.3%). In Arkhangel'sk Oblast, St. Petersburg, Bashkortostan, Primorsky Krai the respective index did not exceed 1% (with the average index nationwide- 0.5%).

The sales of stock at a commercial tender to foreign investors:

1998: were carried out only in Arkhangel'sk Oblast (34.2% of all the stock sold) (with the average index nationwide- 14.2%).

1999: there were no such sales.

Sales of land

It was the sales of land, which was intended to become the key element of the privatization process upon the completion of the voucher privatization¹⁹. At present, one can state that this process has not gained a great magnitude. The official statistical reports provide information on both the number of transactions (since 1995) and the area of redeemed land lots (since 1994).

Should we proceed from the former indicator, during the whole second half of the '90s the sales of land were stable, except for a sharp (almost 2.5-fold) fall in 1999 vs. 1998. In all, between 1995 to 1999, there were 327 transactions on privatization of land (62-in 1995, 75-1996, 70-1997, 85-1998, 35-1999). However, the geography of land sales was narrowing rather than expanding (in 1995 transactions were registered in 21 region, 1996-16, 1997-21, 1998-14, 1999-7), while in 49 regions there were no such transactions over the period in question.

ommercial tenders de-fact became a single method.

The leaders in terms of land sales were: Vologda Oblast (70 transactions), Krasnodar Krai (26), Chita (3), Kemerovo (20), Sverdlovsk (19), Saratov (15) Oblasts, Komi, Rostov, Tymen (including Khanty-Mansy and Yamalo-Nenetsky AO=s) (13 in each), Kaluga, Yaroslavl, Orenburg (12 in each); the cumulative proportion of all the a.m. regions roughly accounts for 3/4 of all the transactions registered in the country.

The evaluation of the area of the redeemed sites shows a different picture. Proceeding from this index, one can argue a rapid start in 1994-95 followed by the downward trend prevailing until now. The overall area of the sites redeemed over the 6 years in question made up a. 366 sq.km. (13 sq.km.-in 1994, 296.3- 1995, 19.1-1996, 15.8-1997, 13.02-1998, 8.45- in 1999). At the same time the number of regions in which statistics reported the sold sites was growing: given that in 1994 there were 13 of them, in 1995- 23, in 1996- 29. Then some decline followed (21 region in 1997), with a consequent significant rise (1998- 35, 1999- 34). Nonetheless, statistics reported no sales of land in 37 regions since 1994.

Between 1994 to 1999 the leaders in terms of the area of the redeemed sites (not less than 10 sq.km. in every region) were: Novgorod (64.4 sq.km.), Smolensk (43.3 sq.km.), Chita (41), Astrakhan (30.5), Leningrad (30.1), Sverdlovsk (26.3), Orenburg (23.7), Kemerovo (14.2), Nizhny Novgorod (10.1 sq.km.) Oblasts (in all- over 3/4 of all the area sold over the period concerned).

The comparison of the group of regions-leaders in terms of the number of sites sold and the group of regions - leaders in terms of the area of sites sold allows conclusion of their partial (less than a half) overlap that falls on the regions of the Asian part of the country (Chita, Kemerovo, Sverdlovsk, Orenburg Oblasts).

As concerns the regions located in the European part of the country, apparently one can speak about different contents of the sales of land sites. The presence of Novgorod, Smolensk, Astrakhan Oblasts in the group of leaders in terms of the area of land sites sold is most likely to be attributed by several single transactions on the redemption of land by large privatized enterprises (thus, the respective index of Novgorod Oblast is likely to be attributed to the region's success in attraction of investment. On the contrary, as far as the index of Vologda Oblast is concerned, one can argue that the Oblast's leading positions in terms of the number of transactions (rather than the area of the redeemed lots) is likely to be attributed to a systematic implementation of the regional administration's policy towards the objects that earlier had undergone the small privatization program, and which, in contrast to industrial enterprises, as a rule, occupy a far smaller area. As concerns the other aforementioned regions in the European part of the country, this assumption appears probable, though it may require additional specification, for the number of transactions there is substantially smaller than in Vologda Oblast.

¹⁹ Since 1998, Goskomstat RF specified the sales of land as the sales of land lots as an element of the property complex of privatized enterprises.

Partly the data can be obtained through the evaluation of the period between 1996 to 1999, i.e. exclusive of the start (1994) and the peak (1995) of the privatization of land sites. Over the period in question, the biggest areas were sold in Nizhny Novgorod (10.1 sq.km.), Leningrad (8) Oblasts, St. Petersburg (7.8), Ulyanovsk (3.2), Novosibirsk (2.6), Karelia (2.1sq.km.) (in all a. 60% of the total land area sold). In another 12 regions (Vologda, Novgorod, Kaluga, Moscow, Tula, Kirov, Belgorod, Samara, Orenburg, Sverdlovsk, Kemerovo Oblasts, and Altay Krai) the area sold accounted for 1 to 2 sq.km., while in other territories (in those where any land was sold)- under 1 sq.km.

One cannot help but note that the first and the third positions in terms of the area of land sites sold between 1996 to 1999 are held by the regions that enjoy the reputation of the most advanced pro-market Subjects. The leadership of Nizhny Novgorod in terms of the area of land lots sold along with a small number of transactions noted testifies to the assumption of several redemptions by large privatized enterprises of their respective land lots. The same is likely to be attributed to St. Petersburg, though one may also admit a greater impact of the factor of redemption of land by small objects that underwent the small privatization program.

In 1999, for the first time since the beginning of market reforms, the official statistical data on privatization has provided the information on the redemption of land sites by foreign investors. Naturally, one can talk of a symbolic area of 17 Thos. sq. m., or 0.2% of the total area of the redeemed land lots that can be split roughly equally between Tula (8 Thos. sq.m.) and Chelyabinsk (9 Thos. sq.m.) Oblasts. However one can hardly argue the equality between these transactions, for given that in Tula oblast the respective area made up a. 1.5% of the whole area of sites redeemed, in Chelyabinsk that accounted for almost 43%.

Sales of indebted enterprises.

Despite the fact that the general legal and organizational prerequisites for the application of bankruptcy procedures were laid down fairly early²⁰, the practical work in that direction started only upon the adoption of Resolution of the RF Government of May 20, 1994, # 498 “On some measures on implementation of the law on insolvency (bankruptcy) of enterprises” and presidential Decree of June 2, 1994 # 1114 “On sales of the public enterprises-debtors”. Since 1995 the sales of indebted enterprises began to be singled out as an independent method of privatization.

Between 1995 to 1997 just 109 enterprises were privatized using this method (47-in 1995, 39-1996, and 23-in 1997). Paradoxically, the coming into force since March 1, 1998 of a new, more advanced from the realities of market economy perspective law “On insolvency (bankruptcy)” resulted in the discontinuation of indebted enterprises in the course of privatization. Given that in 1998 only 9 enterprises were privatized in such a way, in 1999 there were not any.

In all during the period between 1995 to 1999 such sales took place in 37 Subjects. In the majority of them the procedures were applied to 1-2 objects, which could not impacted the general

backdrop of the privatization process in the country. The leaders became Vologda (11 units), Volgograd and Tambov (by 9 each), Karelia (8), Arkhangel'sk, Belgorod and Chita (by 6), Yaroslavl, Sverdlovsk and Kamchatka (by 5) Oblasts (in all a. 60% of all such sales in the country).

Other non-standard methods.

In 1998 to 1999, the classification of the privatization methods was enriched with such new methods as contribution with public or municipal assets to authorized capital of companies and estrangement of the state-owned (municipal) stakes in JSC created in the course of privatization in favor of owners of government (municipal) bonds that prove the right for such an acquisition.

During the two years in question the statistical agencies noted only 8 cases of contributing with the public or municipal property to authorized capital of companies (5- in Tymen Oblast, 1- in Arkhangel'sk, Kaliningrad Oblasts, and Bashkortostan), and there was just 1 enterprise privatized through conversion of the government (municipal) bonds that certified the right for acquisition of a stake in JSC created in the course of privatization into such stock (Kaluga Oblast).

4.8. Cross-region differentiation of the general structure of ownership and structure of industrial sector emerged in the IInd half of the '90s.

A large public sector has managed to survive in the country, despite a great magnitude of the Russian privatization process between 1992 to 1997. According to the methodology of calculations applied by GKI RF, by early 1998, of the **total** number of public enterprises as of the start of privatization, 59% of them changed their form of ownership, while by 2001- a. 70%. Similar to many other indices, this one was characterized with a substantial cross-region differentiation, which can be evident, in the course of a classification of all the Subjects by this particular feature:

1. The group of the regions with the least intensive privatization comprises 26 Subjects: Murmansk, Leningrad, Vladimir Oblasts, Moscow, Mordovia, Kalmykia, Tatarstan, Samara Oblast, Dagestan, Ingoushetia, Kabardino-Balkaria, Karachaevo-Cherkessia, North Ossetia, Krasnodar Krai, Perm Oblast, Bashkortostan, Tyva, Sakha (Yakutia), Nenetsky, Yamalo-Nenetsky, Taimyr, Evenk, Ust-Ordynsky Buryatsky, Aginsky Buryatsky, Chukotka, Koryak AO=s) in which less than half enterprises were privatized, while in Mordovia, Kabardino-Balkaria, North Ossetia, Tyva and Taimyr the proportion of privatized enterprises made up under 1/5.

2. The group of regions, in which over 1/2 of enterprises was privatized, but less than throughout the country on average (i.e. not more than 60%), comprises 16 Subjects (Karelia, Novgorod, Pskov, Moscow, Nizhny Novgorod, Penza, Ulyanovsk Oblasts, Mary-El, Chuvashia, Adygea, Novosibirsk Oblast, Khanty-Mansy AO, Krasnoyarsk Krai, Jewish Autonomous Oblast, Amur, Magadan Oblasts).

3. The group of regions with the maximal intensity of privatization (over 80% became non-government) comprises 12 regions (Orel, Ryazan, Belgorod, Volgograd, Saratov Oblasts, Stavropol Krai, Orenburg, Chelyabinsk, Tomsk Oblasts, Buryatia, Chita. Sakhalin Oblasts).

4. The group of regions in which the number of privatized enterprises became bigger than throughout the country (i.e. not less than 60%), but less than in the third group (i.e. not more than 80% of enterprises): the group comprises all other Subjects of RF that are not included in the three noted groups above.

Such a classification is based on the data by the whole mass of enterprises as of the moment of the start of privatization, including both the federal and municipal property and the property of the RF Subjects across all of the sectors of the national economy. The GRP values calculated by Goskomstat of RF since 1994 do not contain an integral data on the production of GRP by enterprises of a certain form of ownership at the level of single regions. That is why, to illustrate the level of cross-region differentiation in terms of contribution of forms of ownership in results of economic performance, one can take **the industrial sector**.

By results of 1997, across the country as a whole the proportion of the non-government sector in the industrial sector (i.e. industrial enterprises that do not fall under public and municipal forms of ownership) accounted for 89.8% of the volume of industrial output. In the majority of the RF Subjects this value was not less than 4/5. The group of regions-exceptions comprised Leningrad, Moscow, Smolensk, Tver, Kursk, Saratov Oblasts, Mary-El, Kalmykia, Tatarstan, Ingoushetia, Kabardino-Balkaria, North Ossetia, Altay Republic, Tomsk Oblast, Tyva, Republic of Sakha (Yakutia), and Chukotka Autonomous Okrug. Of these 17 regions, it was only Chukotka and Ingoushetia whose enterprises provided less than a half of the volume of industrial output, while in Altay Republic- slightly over the half, in Smolensk Oblast, Kalmykia and Tyva- between 60 to 70%, and in other 11 regions- between 70 to 80%.

The next year, in 1998, throughout the country as a whole, the proportion of industrial output by non-government enterprises fell for the first time over the '90s, though such a fall made up just 1.2 per cent points relative to the privatization peak noted in 1997. The composition of the group of the regions in which the proportion of the public sector in the overall volume of industrial output accounted for less than 80%. The group has been missed by Leningrad, Moscow, Tver, Saratov Oblasts, Kabardino-Balkaria, Sakha (Yakutia), but it was joined by Arkhangel'sk, Penza, Dagestan, Udmurtia, Orenburg Oblast, and Khabarovsk Krai.

Due to the above, the question arises as to how stable, at the level of single regions, the trend is that manifested itself in the national industrial sector as a whole for the first time in 1998. Obviously, with the official statistical data being hardly reliable, non-government enterprises' higher motivation to lower the volume of their performance, the impact of the 1998 financial crisis and its effects, some minor changes within the annual interval cannot form an objective justification for illuminating some trend.

That is why for the purpose of a more detailed evaluation, it would be expedient to compare at the regional level the change in the proportional weight of the non-government part of the

industrial sector in the total volume of industrial output in 1998 vs. 1995. It appears that over almost 10 years of the market economy's functioning in Russia the fall in the index at more than 4 per cent points over 3 years would become an objective indicator of the decline of the non-government sector in the industrial sector of certain regions.

The evaluation showed that such a feature is characteristic of 18 regions (Arkhangel'sk, Leningrad, Vladimir, Ivanovo, Smolensk, Voronezh, Kursk Oblasts, Tatarstan, Ingoushetia, Kabardino-Balkaria, Kurgan, Orenburg, Sverdlovsk, Omsk, Tomsk Oblasts, Altay Republic, Tyva, Khabarovsk Krai) of 41 in which the contraction in the proportion of non-government sector was noted. Notably enough, in Arkhangel'sk, Orenburg and Tomsk Oblasts, Khabarovsk Krai and Ingoushetia the contraction is measured with two-digit figures (between 10 to 28 per cent points).

It must be noted that we speak of the contribution of the non-government sector to the resulting index (volume of industrial output) rather than the resource ones (the proportional weight in the economy and employment) that are far less significant in the Russian economy and even to some extent virtual and proved to be susceptible to substantially less sharp fluctuations over the time interval between 1995 to 1998. Thus, of 38 regions that experienced the decline in employment at non-government industrial enterprises, only in 7 regions the contraction in employment accounted for over 4 per cent, while of 16 regions in which the proportion of non-government industrial enterprises fell, the contraction exceeded the noted value only in 4 regions.

Whilst abstracting from the problem of quality of statistical observations, one has to admit that the growth in the proportional weight of public and municipal enterprises in the total volume of industrial output in a number of regions may have been related to the intensification of the impact of the authorities of RF Subjects on ownership relations in the second half of the '90s. Such an impact was exercised by two main ways.

First, through the change of the correlation between industrial enterprises of certain organizational and legal forms, which is based on closely interconnected bankruptcy process (that results in the transition of private enterprises' assets under the sub-federal and municipal ownership) and creation of new enterprises owned by the Subjects.

Secondly, without changing the economic agents' organizational and legal structure, through providing a selective support to single public and municipal enterprises. A certain part could also be played by the distribution of the state order funded from the federal budget.

The general backdrop of the development of the trend is the crisis at many private enterprises that experienced a rapid continuation of degradation of their production due to either the formal nature of the change in ownership, or because of the long-lasting struggle for control, and practically a complete absence of new enterprises recently created by genuine private capital.

All the above provokes a question as to whether the trend concerned (the trend to some growth in the proportional weight of public and municipal enterprises in the total volume of

industrial output in certain regions) is related to personal changes in, and political orientation of their leadership.

Of 30 Subjects that underwent through changes of their Heads due to elections between 1995 to 1997, in 1998 the proportion of the non-government sector vs. 1995 fell (even if insignificantly) only in 15 regions. Interestingly, of those 15 regions, it was only 10 ones in which the leftist candidates won, while in another 5 the winners became either the candidates loyal to the federal center, or representatives of the so-called “third force”. As concerns the a.m. group of 18 regions in which the contraction in the proportion of the non-government sector made up a significant rate (over 4 per cent points), heads of administrations were changed in the course of elections only in 7 regions (and in 5 of those the victory went to the candidates promoted by the opposition).

Hence, the conclusion concerning a direct interconnection between the trends of the development of the private sector in industry with personal changes and political orientation of the regional authorities finds rather a loose proof. Perhaps, the new cycle of regional elections in 1998-2000 and the evaluation of the situation both in the industrial sector and other sectors of the economy would bring about a final clarity to this matter. In this paper, the detailed analysis of the interconnection between the level of privatization of industrial sector in the Russian regions and political factors and key economic indicators between 1995 to 1997 is given in Chapters 5 and 6.

Chapter 5. Regression analysis of correlation between the level of the non-government sector's development and the economic and political situation in regions.

5.1. The dependence of economic indices on the level of privatization in industrial sector.

Let us consider regression dependencies of several economic indices:

- the share of unprofitable enterprises in the total number of enterprises (UE);
- The Industrial Output Index(let's consider two variants: relative to 1993 and to 1995) (IOI);
- The proportion of non-government investment in the overall volume of investment in industrial sector (NGI),-

on the variables characterizing the level of privatization in the industrial sector:

- The proportion of industrial enterprises of the non-government sector in the overall number of industrial enterprises (P1);
- The share of these enterprises' output in the overall volume of industrial output (P2);
- The proportions of employees at these enterprises in the overall number of employed in the industrial sector (E).

The original information used for the calculations is given in Annex P5.1. The results of the calculations are given in Annex P5.2.

5.1.1. *The proportion of unprofitable enterprises in the total number of industrial enterprises.*

Let us regress the dependence of the proportion of unprofitable enterprises on the indices that characterize the level of privatization of the industrial sector. The general conclusion that can be drawn at this point is as follows: the dependence of the share of unprofitable industrial enterprises on the characteristics of privatization of the industrial sector is highly significant ($F=21.104$), should 2 indices be considered as factor (independent) variables: the share of enterprises of the non- government sector in the total number of industrial enterprises (a significant negative correlation) and the share of employees at these enterprises in the overall number of employed in the industrial sector (a significant negative correlation). The explanatory capacity of the model is not so much high (the adjusted $R^2=0.340$). Hence, the regression dependence of the share of unprofitable enterprises on the indices that characterize the level of industrial privatization is:

$$UE=121.326-0.552P1-0.258E.$$

This result convincingly demonstrates a positive effect from privatization that is related to the fact that new, private owners have a higher motivation than the state as an owner, whose bureaucrats acts on its behalf. The positions of the latter directly are not at all related to the financial results of the enterprise's performance. In general case, they former cannot count on the government covering their losses that may arise in the course of their economic activities. It should be also noted that in contrast to the developed market economies in which the financial profitability gained in a cut-throat competition is a result of a certain technical and economic efficiency, the profit in the Russian transitional economy may be attributed to the lack of balance in the market (taking advantage of disproportions inherited from the administrative economy), an imperfect competition mechanism (a loose restriction of monopolist effects), the use of the better starting positions (for instance, the production profile or a smaller depletion and age of the equipment), as well as to the advantages of the rent-oriented behavior of some economic agent that enjoy certain preferences from his *connections* with the authorities. On the contrary, the unprofitability of public or municipal enterprises is not always the result of low quality of their management. Such economic activity indices may result from price regulation, administratively selected variants of sales and procurement policy or other actions undertaken by their superior management agencies. That can be determined by specifics of the sectors in which public and municipal enterprises usually operate. Such a situation may well happen in a developed economy, too, while in a transitional economy in a whole range of cases the economic agent's unprofitability appears resulting from conscious actions of its managers (a "sucking-off" of its assets to its daughter structures, a deliberate bankruptcy, an accumulation of funds for the consequent privatization, etc.) and the state's failure to fulfill its obligations (most frequently, delays with paying for the state order).

5.1.2. Industrial output index

Let us consider 2 variants: relative to 1993 and relative to 1995

Let us first consider the regression dependence of the industrial output index of 1998 relative to 1993 on the indices that characterize the level of privatization in the industrial sector.

At this point, the general conclusion is as follows: the dependence of the IOI (1998 relative to 1993) on the characteristics of privatization in the industrial sector is insignificant. However, there is a significant (5%) positive relation between this Index and the share of non-government enterprises in the volume of industrial output in the presence of a negative relation (being significant at the 11% level) of the given index of the share of employees at these enterprises in the total number of employed in the industrial sector. In this case the regression equilibrium appears as follows:

$$IOI = 49.533 + 0.556P - 0.477E.$$

Let us consider then the regression dependence of IOI in 1998 relative to that of 1995 on the indices that characterize the level of privatization in the industrial sector.

The general conclusion will be as follows: the dependence of the IOI (1998 relative to 1995) on the characteristics of privatization in the industrial sector is significant in the course of consideration of two indices: the share of non-government enterprises in the total volume of industrial output (a significant positive correlation) and the share of employees at these enterprises in the total number of employed in the industrial sector (a significant negative correlation). The explanatory capacity of this model, however, is extremely low (the adjusted $R^2 = 0.054$). In this case the regression equilibrium appears as follows:

$$IOI = 89.957 + 0.472P - 0.556E.$$

Such findings demonstrate a certain positive privatization effect. The privatization of the industrial sector can be viewed as some obstacle to an industrial decline. In general case the new owners of enterprises have certain incentives to overcome the volume of a decline in output, along with a prospect of its future rise, which should form the new revenue source. A more significant positive dependence of the IOI in 1998 relative to 1995 (compared with the IOI-1998 to IOI 1993 correlation) on the share of industrial output produced outside public enterprises may be interpreted as a slowdown of the production decline and creation of preconditions for growth. The latter become possible in the course of the corporate sector's emergence that forms a nucleus for the whole industrial sector that is not owned by the government. It is impossible to argue its earlier (prior to 1995) emergence.

At the same time, one should not the following:

On the one hand, the nature of the transformational decline that the national economy experienced in the '90s, with the shift in favor of natural resources, their primary processing, natural monopolies and change of ownership forms in those sectors undoubtedly helped reach the present

results. On the other hand, as far as the sectors oriented towards competitive markets are concerned, the rise in the volume of their output may become possible only after their intensive restructuring. The latter may be undertaken by their new owners upon their privatization, which, as a rule, is accompanied by a decline in the noted volumes. The specialization of public enterprises also generated a more intensive decline rate of their volumes of output. It is defense enterprises that can serve as a shining example in this respect. The major part of them remain public and their volumes of output are closely related with the state order or Russia's operations on the foreign bureaucratic markets (the export of military-technical produce). As practice has shown the conversion capacity is fairly limited.

However, the revealed negative correlation with the proportion of employees at non-government enterprises, along with a low explanatory capacity of the correlation in terms of the share of output shows the complex situation of the national industrial sector, and it is likely to be the excessive employment that still is an obstacle to economic growth. As the analysis shows, its phenomenon is characteristic not only to public enterprises, which, on the one hand, shows the formal nature of many privatization cases, while, on the other, that it has taken roots (technical, socio-political, and psychological).

5.1.3. The proportion of non-government investment in the total volume of investment in industrial sector

Let us consider the regression dependence of the proportion of non-government investment in industrial sector on the indices characterizing its privatization level.

The general conclusion that can be drawn in this case is as follows: the dependence of the proportion of non-government investment in the total volume of investment in industrial sector on its privatization characteristics is significant in the course of consideration of two indices appearing as factor (independent) variables: the proportion of non-government enterprises in the total number of industrial enterprises (a significant positive correlation) and the share of their employees in the overall number of employed in the industrial sector (a significant negative correlation). However, the explanatory capacity of the model is low (the adjusted $R^2=0.101$), though it is higher than in the previous case.

Hence, the regression dependence of the share of unprofitable enterprises on the indices characterizing the level of privatization in the industrial sector is:

$$NGI=16.887+ 2.130 P1-1.82E$$

As it was noted in the course of evaluation of correlations between the level of privatization in industrial sector and dynamics of output, the results above demonstrate a certain positive effect of privatization. In a general case, the new owners of enterprises cannot count on government investments. In contrast to directors of public enterprises and bureaucrats, they are directly interested in development of a long-term strategy of their companies' development, which requires

a regular investing in capital assets. Notably, it is the fact of the change in the form of ownership of the enterprise as an organizational and legal unit at microlevel that matters. As concerns additional factors that helped achieve the present results, one can consider those to be the deterioration of capital assets inherited from the administrative economy, a sharp “investment hunger” of the ‘90s, and the government’s miserable capacity in terms of funding investment programs in the public sector.

The revealed negative correlation in terms of the share of employees at non-government enterprises, as well as in the case of the IOI regression, demonstrates the importance of the solution of the problem of excessive employment on the path of ensuring sustainability and a high quality to economic growth.

5.2. The dependence of characteristics of privatization in industrial sector on dynamics of industrial output.

At this point, we attempt to consider regression dependencies of the indices characterizing the level of privatization in industrial sector on the dynamics of industrial output between 1991 through 1998 relative to 1990. The respective output is provided in Annex P5.2.

5.2.1. The proportion of industrial enterprises of the non-government sector in the overall number of enterprises in the industrial sector in the region.

Let us built regressions of the share of non-government industrial enterprises in 1997 on the dynamics of industrial output between 1991 to 1997.

As Tables P2-2-1 show (Annex P5.2.2) its is model #5 that is the best. The model suggests that the share of non-government industrial enterprises in 1997 is determined by IOI=s for 1993, 1994 and 1995. However, even in this case the regression dependence is significant only on the 10% level; the regression correlations with the Indices for 1994 and 1995 are highly significant, while the respective correlation for 1993 is significant only on the 10% level.

Let us proceed with building regressions of the proportion of the non-government industrial enterprises in 1998 on the IOI=s for 1991-98. In this case the best is the model in which the share of non-government industrial enterprises in 1998 is determined by IOI=s for 1991, 1994, and 1995. At the same time the regression dependence itself and the respective regression correlations under Indices are highly significant (it is the respective correlation under the 1995 Index -3.3% which is the least significant).

Hence, to find out the index of the share of non-government industrial enterprises in the total number of industrial enterprises, the regression dependencies on the dynamics of IOI=s were built. At the same time, for the Index of 1998 the regression is significant on the 5% level (2%), while for 1997 - only on the 10% (7.2%). In the both cases, it is the dependencies on the Indices for 1994 and 1995 that are significant on the 5% level. The dependencies found are very loose (the adjusted value R² accounts for 0.053 for the regression of 1997 and 0.086 for 1998).

The respective results cannot be subject to qualitative interpretation, which necessitates an additional quantitative and qualitative evaluation.

5.2.2. The share of output of non-government industrial enterprises in the overall volume of industrial output of the region.

Let us consider now the regression dependencies of the share of the output of non-government industrial enterprises in 1997 on the IOI dynamics between 1991 through 1997.

The results of calculations show that in this case the best is the model in which the share of output of non-government industrial enterprises in the overall volume of industrial output is determined by IOI=s for 1994, 1995, 1996, and 1997. At the same time, both the regression dependence itself and regression correlations under the Indices are highly significant (it is the correlation under the 1997 Index that is the least significant - 0.7%).

Let us built now regressions of the share of output of non-government industrial enterprises in 1998 on the IOI dynamics in 1991 through 1998.

In this case, too the best is the model in which the share of output of non-government industrial enterprises in the overall volume of industrial output is determined by IOI=s of 1994, 1995, 1996, and 1997. At the same time, the regression dependence itself and the regression correlations under the Indices are highly significant (with the 1997 Index being the least significant -1.5%).

Hence, for the index of the proportion of the non-government industrial enterprises' output in the overall volume of industrial output highly significant (on the 1% level) regression dependencies on IOI were built. In the both cases it is the dependencies on the Indices of 1994, 1995, 1996, and 1997 that are highly significant. The dependencies found are weak (upon consideration of the autocorrelation in residuals, the value R² makes up 0.202 for the regression of 1997 and 0.178- for 1998), though they are much stronger than in the previous case.

Similar to the latter, the qualitative interpretation of the findings is complex and requires an additional evaluation.

5.2.3. The share of employees at non-government industrial enterprises in the overall number of employees in industrial sector.

Let us consider the regression dependencies of the share of employees at non-government industrial enterprises in 1997 on the IOI between 1991 through 1997.

Table P2-2-8 demonstrates that in this case both the regression dependence and the regression correlations are not significant even for the best model.

Let us built regressions of the share of employees at non-government industrial enterprises in 1998 on the IOI between 1991 through 1998.

The calculations show that in this case the best model is that in which the share of employees at non-government industrial enterprises in the overall number of employees in

industrial sector is determined by IOI=s of 1994, 1995, 1996, and 1997. At the same time both the regression dependence and the regression correlations are highly significant (it is the correlation under the 1997 index that is the least ... - 1.4%).

Hence, while considering the index of the share of employees at non-government industrial enterprises in the overall number of employees in industrial sector in 1997, its regression dependence on dynamics of IOI=s is insignificant. At the same time, as long as the index of the share of employees at non-government industrial enterprises in the overall number of employees in industrial sector in 1998 is concerned, its regression dependence on dynamics of IOI=s is highly significant and the dependencies on the indices of 1994, 1995, 1996, and 1997 are also highly significant. The found dependence is weak (the adjusted value R^2 upon autocorrelation in residuals is 0.228), although slightly stronger than in the previous case.

Similar to the previous cases, however, the qualitative interpretation of the findings is complex and requires an additional analysis.

The general conclusion that can be drawn from the above findings is as follows: the dependencies of the indices of privatization in industrial sector on the IOI dynamics is significant for 1998, while for 1997 the significant value is only the dependence of the share of the non-government industrial enterprises' output. The IOI=s for 1994-97 are significant (for the share of non-government enterprises - 1994, 1995).

5.3. Privatization and voting.

Let us first consider the existence of correlations between the outcome of the 1996 presidential run and the level of privatization in industrial sector and housing fund in one year prior to the elections and in one year afterwards.

The level of privatization should be characterized with four indicators:

- the share of non-government industrial enterprises in the total number of industrial enterprises;
- the share of the non-government industrial enterprises' output in the overall output in industrial sector;
- the share of employees at the non-government industrial enterprises in the total number of employees in industrial sector;
- the share of non-government housing in the total volume of the housing fund.

The outcome of the presidential run should be characterized with two indicators:

- the proportion of those voted for Eltzin in the number of voters in the 2nd round;
- the proportion of those voted for Zuganov in the number of voters in the 2nd round;

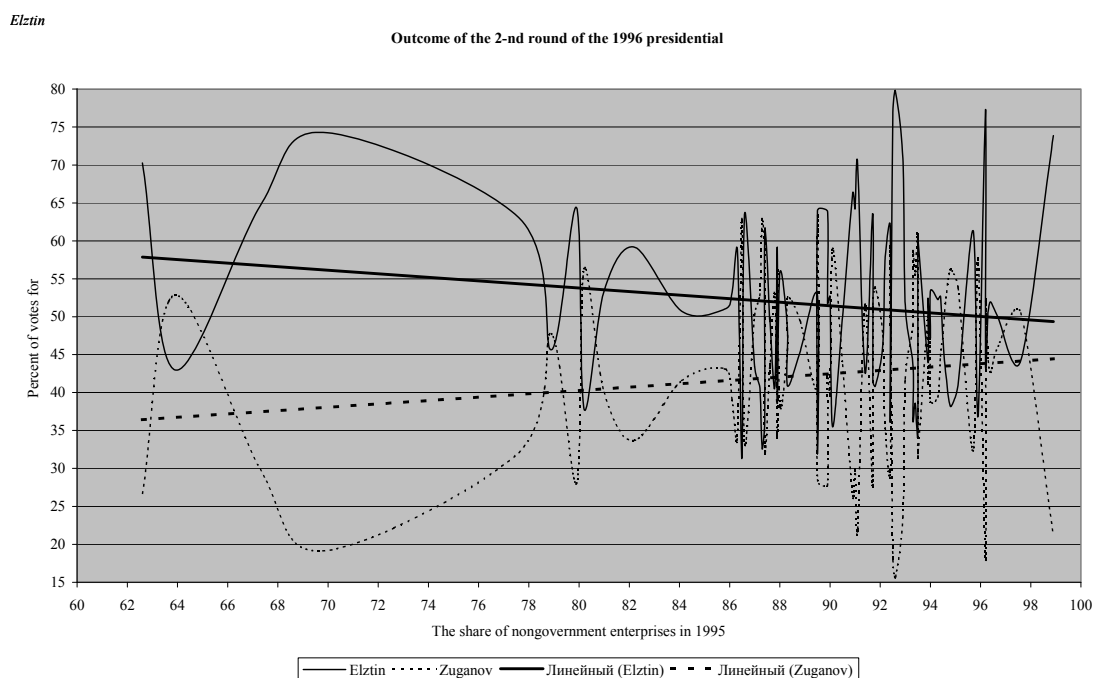
5.3.1. The correlation of the proportion of non-government industrial enterprises in the overall number of industrial enterprises and elections outcome

The results of the calculations show the existence of a small negative correlation between the proportion of non-government industrial enterprises and the share of Eltzin's supporters and a positive correlation with the share of those who voted for Zuganov. At the same time the correlations found with respect to the data for 1995 are somewhat clearer compared with the respective data for 1997.

Results of the second round of the 1996 presidential elections

The same conclusion is proved by the charts showing the dependence of the share of votes for Eltzin and Zuganov on the share of non-government industrial enterprises in 1995 and 1997 given in Fig. 3-1 and 3-2, respectively. In addition, the charts show that in this case there is no dependence (and moreover, functional dependence), but just the existence of the trend that manifests itself in the respective gradient of the trend line. The same is proved by the results of the regression analysis given in Annex P5.2.3.

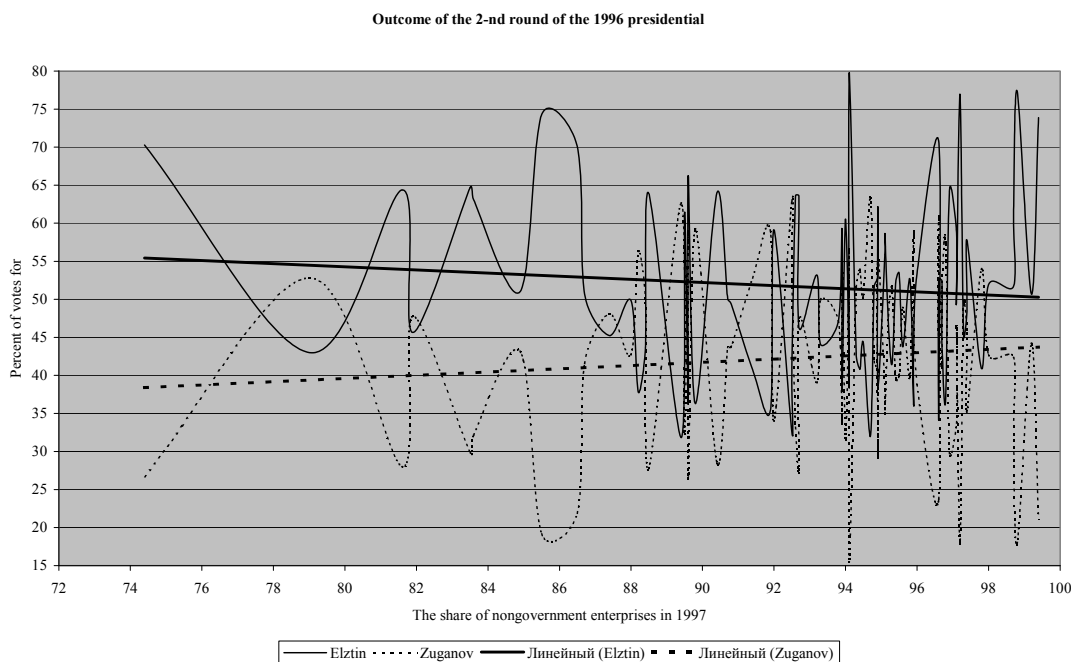
FIGURE 3-1. THE DEPENDENCE OF THE SHARE OF ELTZIN'S VOTERS AND THE SHARE OF ZUGANOV'S VOTERS IN THE SECOND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE PROPORTION OF NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN 1995 IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES.



5.3.2. The correlation between the share of non-government industrial enterprises' output in the overall volume of industrial output and the elections outcome.

In this case the results of calculations show the existence of a more significant (compared with the previous case) negative correlation between the share of non-government industrial enterprises with the share of Eltzin's supporters and a positive correlation with the share of Zuganov's voters. At the same time, similar to the previous case, the correlations found by the data on 1995 are somewhat clearer compared with the data on 1997.

FIGURE 3-2. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN 1997 IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES.



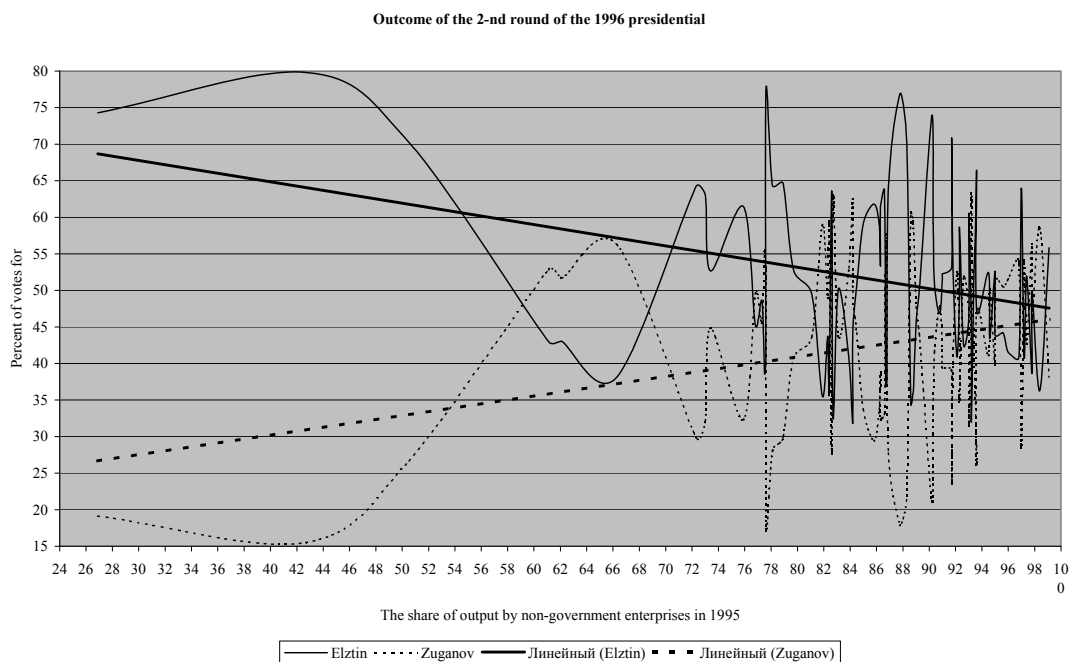
The same conclusion is proved by the charts reflecting the dependence of the share of voters for Eltzin and Zugarov on the proportion of the non-government industrial enterprises' output in 1995 and 1997 given in Fig. 3-3 and 3-4, respectively. In addition, the charts show that, similar to the previous case, one cannot argue an existence of the dependence (moreover, the functional one), but just an existence of the trend that manifests itself in the respective trend line gradient. The same is proved by the results of the regression analysis given in Annex P5.2.3.

5.3.3. The correlation between the share of employees at non-government industrial enterprises in the overall number of employed in industrial sector, and the election outcome.

The results of the calculations show the existence of a negative correlation between the share of employees at non-government industrial enterprises with the share of Eltzin's votes and a positive correlation with the share of Zugarov's votes. At the same time, similar to the above, the correlations found by the data on 1995 are somewhat clearer compared with the data on 1997.

The same conclusion is proved by the charts reflecting the dependence of the share of votes for Eltzin and Zugarov on the proportion of employees at non-government industrial enterprises in 1995 and 1997 given in Fig. 3-5 and 3-6, respectively. In addition, the charts show that in this case, one cannot argue an existence of the dependence (moreover, the functional one), but just an existence of the trend that manifests itself in the respective trend line gradient. The same is proved by the results of the regression analysis given in Annex P5.2.3.

FIGURE 3-3. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN 1995 IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES.



5.3.4. The correlation between the proportion of non-government housing in the total volume of the housing fund with the election outcome

The results of the respective calculations demonstrate the existence of rather a strong negative correlation between the proportion of the non-government housing with the share of those who voted for Elztin and a positive correlation with the share of Zugarov's votes. At the same time the correlations with respect to the data for 1995 still are somewhat clearer compared with the correlations found by the data for 1997.

The same conclusion is proved by the Charts of the dependence of the votes for Elztin and Zugarov on the proportion of non-government industrial enterprises in 1995 and 1997, given in Fig. 3-7 and 3-8, respectively. In addition, the charts show that in this case one cannot argue an existence of the dependence (moreover, the functional one), but just an existence of the trend that manifests itself in the respective trend line gradient. The same is proved by the results of the regression analysis given in Annex P5.2.3.

FIGURE 3-4. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF THE NON-GOVERNMENT INDUSTRIAL ENTERPRISES' OUTPUT IN THE OVERALL VOLUME OF INDUSTRIAL ENTERPRISES' OUTPUT IN 1997.

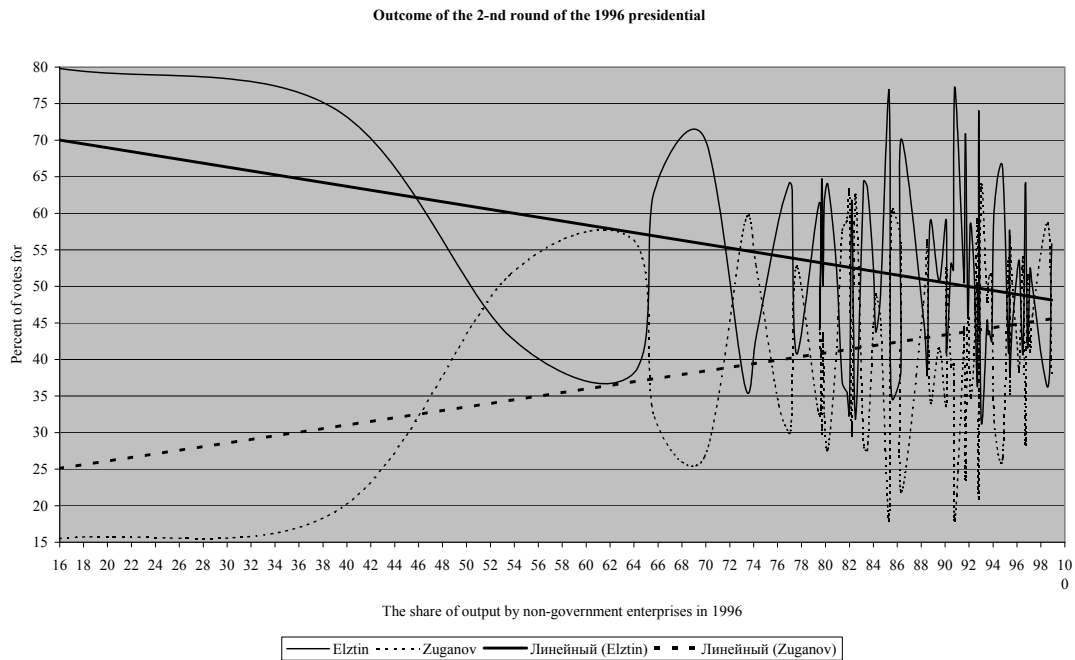


FIGURE 3-5. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF EMPLOYEES AT NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN 1995 IN THE OVERALL NUMBER OF EMPLOYEES AT INDUSTRIAL ENTERPRISES.

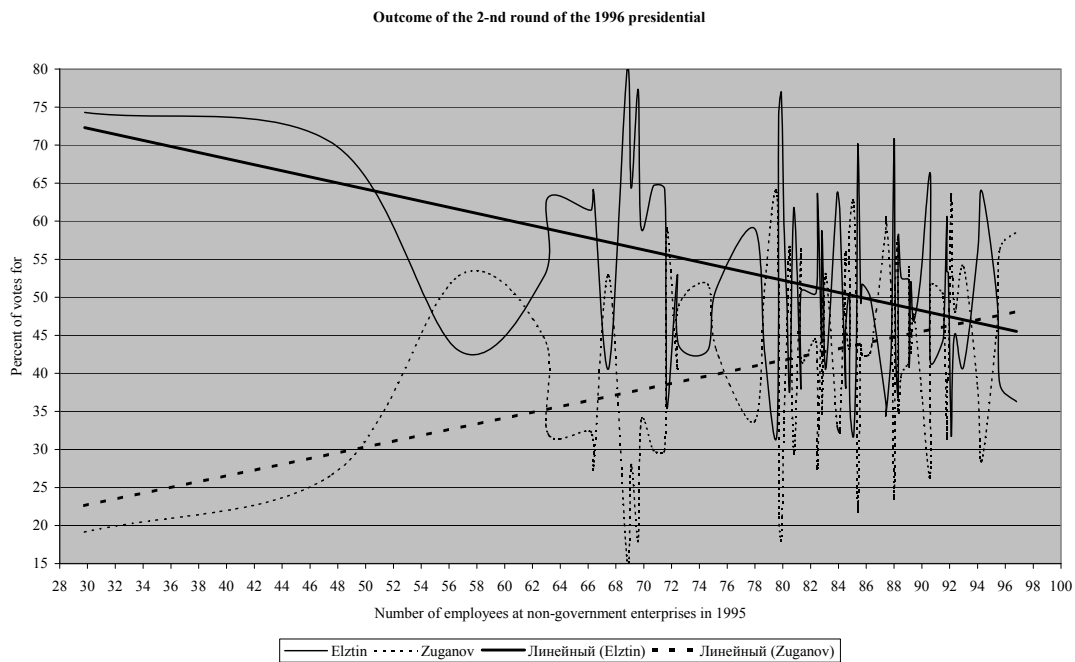
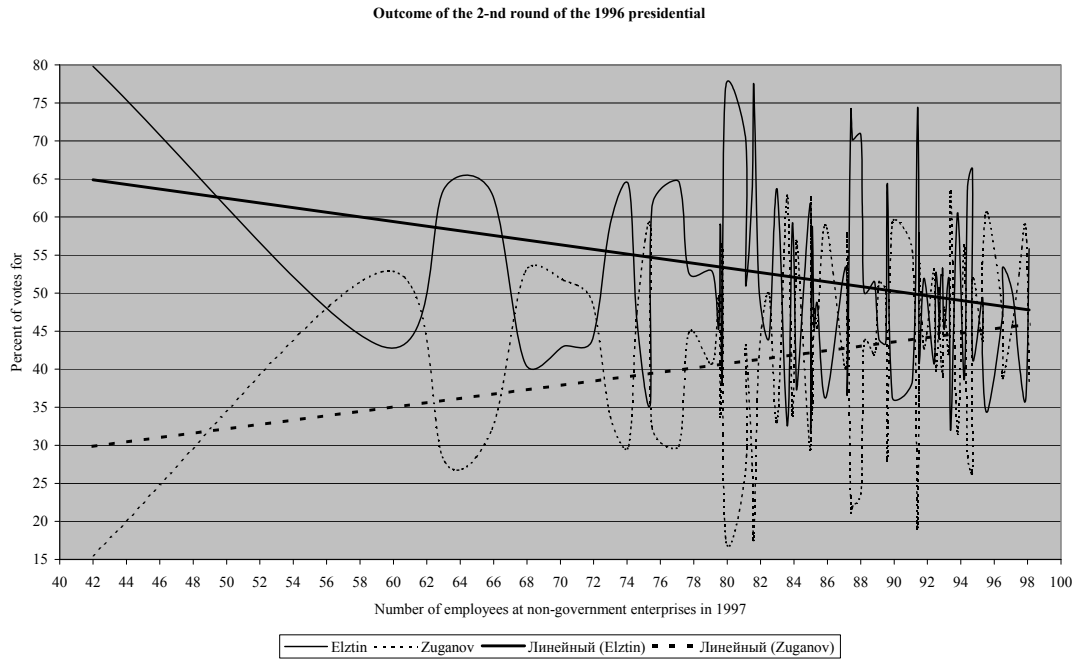


FIGURE 3-6. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF EMPLOYEES AT NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN 1995 IN THE OVERALL NUMBER OF EMPLOYEES AT INDUSTRIAL ENTERPRISES.

FIGURE 3-7. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF NON-GOVERNMENT HOUSING IN THE OVERALL VOLUME OF HOUSING FUND IN 1995.



PRESIDENTIAL ELECTIONS ON THE SHARE OF NON-GOVERNMENT HOUSING IN THE OVERALL VOLUME OF HOUSING FUND IN 1995.

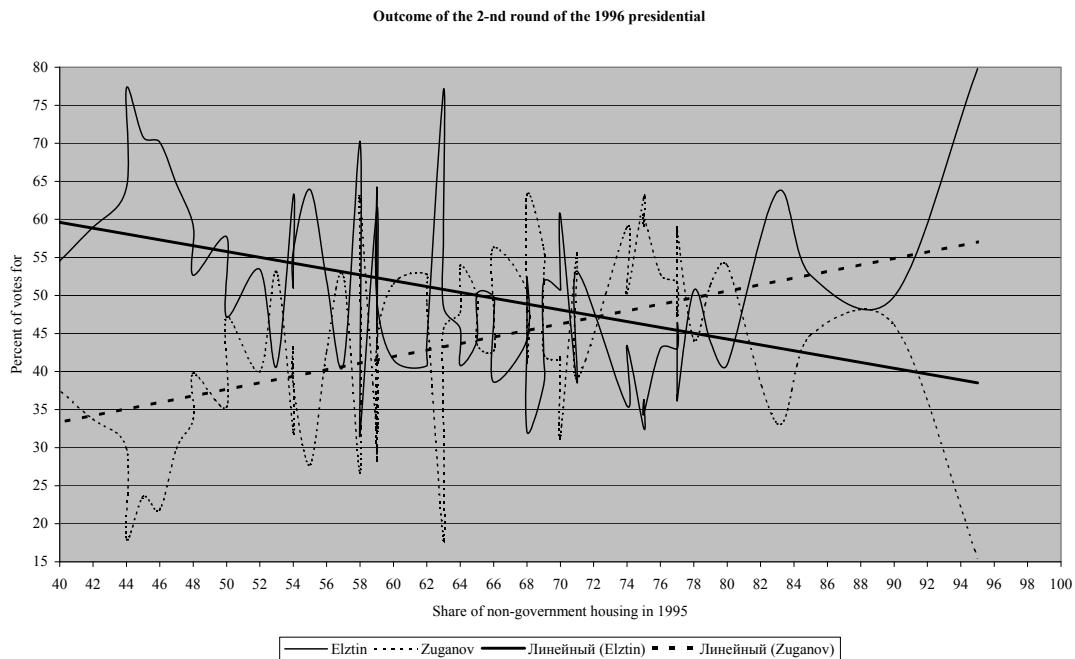
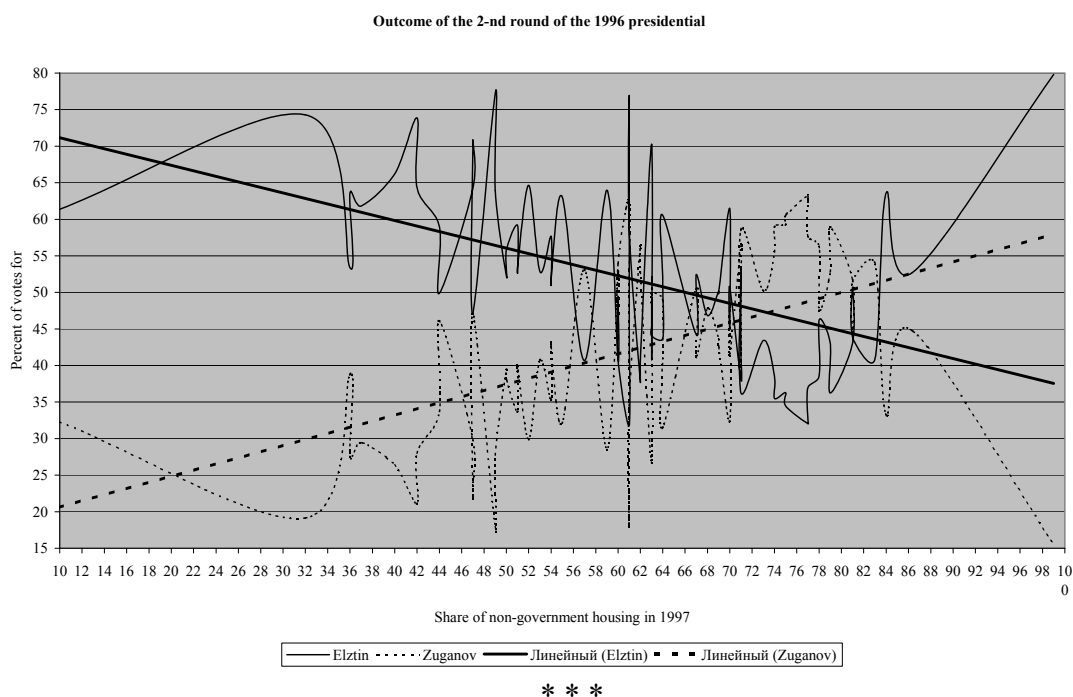


FIGURE 3-8. THE DEPENDENCE OF THE VOTES FOR ELZTIN AND ZUGANOV IN THE 2ND ROUND OF THE 1996 PRESIDENTIAL ELECTIONS ON THE SHARE OF NON-GOVERNMENT HOUSING IN THE OVERALL VOLUME OF HOUSING FUND IN 1997.



Let us draw some conclusions. The results of the analysis practically by all the correlations show the existence of negative correlations between the privatization level indices and the share of votes for Eltzin (the 2nd round), while, on the contrary, there is a positive correlation with the share of those who voted for Zugarov. In the situations in question one cannot argue an existence of the dependence (moreover, the functional one), but just an existence of the trend that manifests itself in the respective trend line gradient.

The findings are not trivial, at least because other research papers (more focused to the evaluation of the elections outcome - see V. Mau, O. Kochetkova, S. Zhavoronkov²⁹) have not found this kind of statistical significance. At the same time there is the need in interpretation of these findings, because they differ from common concepts. One may consider at least three hypotheses highlighting such a nature of the correlation³⁰.

First, very roughly, one can assume that the Russian privatization per se (from the viewpoint of the employed models and apparatus) has not become an incentive for the non-government sector's development, and the practical absence of differences between public enterprises' financial state and that of newly established private companies has led to the population's adequate reaction. Such a hypothesis has a right for existence at the level of theoretical abstract. However, the findings of numerous empirical attempts of research into the private and public companies' efficiency in

²⁹ IET Working Series #15-P. Some political and economic problems of contemporary Russia. Moscow, 1999. Economic factors of electoral behavior (Russia's experience 1995-1996), pp. 65-98; "Russian economy: trends and outlooks" #21. Moscow, April 2000, Annex 10. The 1999 State Duma elections outcome.

³⁰ The noted hypotheses were discussed by V. Mau, R. Entov, A. Radygin, I. Trounin, A. Yudin

Russia in the late '90s provide the grounds for opposite conclusions – that is, regarding comparative advantages of the enterprises with certain types of private prevailing owners.

Secondly, it is a common knowledge that at the initial stage of privatization in Russia, the communists had advocated the 2nd variant of incorporation (privatization) under which 51% of stock was assigned to labor collectives. Although this model has proved its ineffectiveness by now, however “ordinary” employees initially generally share the illusion of “people’s capitalism” (with the employees as “co-owners”). One can assume that initially these illusions influenced the socio-political preferences of the electorate. By 1995-97, upon several stages of property redistribution and concentration in the corporate sector, such illusions to a significant extent vanished. Consequently, in the regions in which the private sector (at least represented by “ordinary” employees) emerged to a greater extent, the electoral mood changed in favor of communists.

Contrast to that, the public sector, especially MIC that faced hardships over the '90s and did not have any chances for an autonomous (from the State) development) could hope for some radical reform on the part of Eltzin (which actually has not happened). That could lead to some growth in support to Eltzin in the regions in which public enterprises prevailed.

Thirdly, there also is a technical explanation which appears most probable. Objectively, in large industrial centers the share of the non-government sector in industrial sector may be less (merely due to the number of enterprises and the privatization pace). The share of such regions in terms of the level of the non-government sector, accordingly, is relatively smaller than in the rural regions (where originally there was the bigger share of private housing), while traditionally it was the urban (pro-Eltzin) electorate that dominated there. In contrast to that, in rural regions the electorate traditionally is pro-communist), while the level of the non-government sector may become substantially bigger (considering the private housing and a small number of industrial enterprises that could be promptly privatized). It would be expedient in the course of the future research to draw an adjustment both with the share of rural population in the total population of the regions and with the share of industrial sector in GRP.

Annex P5.2.4 provides the results of the regression analysis of the outcome of the first round of the 1996 presidential elections.

Chapter 6. Cluster evaluation of the regions in Russia in terms of the prevalence of non-government sector.

6.1. The brief review of major findings of the previous stage

The preliminary research on this issue was an attempt to evaluate the process of emergence of the non-government sector of the economy on the basis of the privatization of public and municipal enterprises that would clearly dominated in the economy. It was intended to evaluate the

sector in terms of regions. To do that, 2 classifications of the regions were built –that is, in terms of the level of privatization in industrial sector and the housing fund. It was an hierarchical cluster analysis that was employed as a formal apparatus for drawing such classifications.

The clusterization of regions was carried out using the inter-group connections methodology. As a measure of closeness between the clusters we used the squared Euclidian distance. The calculations were carried out using the SPSS package. It was the data on all the Russian regions, except Nenetsky Autonomous Okrug (AO), Chechen Republic, Khanty-Mansy and Yamal-Nenetsky, Taimyr (Dolgano-Nenetsky) AO=s; Evenk, Ust-Ordynsky Buryatsky, Aginsky Buryatsky, and Koryaksky AO=s for 1993, 1994, 1995, 1997, and 1998 that was used as an initial data. There was no data available on Ingoushetia for 1993 and 1994.

6.1.1 The first classification.

To carry out this grouping of regions in terms of privatization level, the regions were characterized with three indicators:

- the share of output by non-government enterprises in the overall volume of industrial output in the region.

Proceeding from the main definitions of the methodology employed by Goskomstat of RF, the aforementioned indicator implies the share of industrial output by **all the enterprises not owned** by the Russian Federation (federal property), its Subjects (sub-federal property), urban and rural settlements and other municipal entities (municipal property). The said indicator de-facto comprises the produce of private enterprises and those with mixed ownership, and enterprises owned by public associations.

- The share of employees at non-government industrial enterprises in the overall number of employees in the region's industrial sector.

Proceeding from the main definitions of the methodology employed by Goskomstat of RF, the aforementioned indicator implies the share of employees at **all the enterprises not owned** by the Russian Federation (federal property), its Subjects (sub-federal property), urban and rural settlements and other municipal entities (municipal property). The said indicator de-facto comprises the number of employees at private enterprises and those with mixed ownership, and enterprises owned by public associations.

- The share of the non-government housing fund in the total housing fund in the region

Proceeding from the main definitions of the methodology employed by Goskomstat of RF, the aforementioned indicator implies the share of **the whole housing fund not owned** by the Russian Federation (the departmental federal fund), its Subjects (the departmental fund of Republics, Krai, Oblasts, and the city Moscow and the city of St. Petersburg that also are the Subjects of the Federation) municipal entities (i.e. owned by the municipal district, town, and the departmental fund run by municipal enterprises and operatively controlled by municipal entities).

The said indicator de-facto comprises the private housing fund (i.e. owned by private individuals and legal entities established in their capacity of private owners), the one in mixed ownership (i.e. jointly owned (or the ownership is shared by) various agents of private, public, municipal ownership, and public associations.

TABLE 1-2. CLUSTER DISTRIBUTION OF REGIONS BETWEEN 1993-1998 IT. (THE NUMBER OF REGIONS IN A CLUSTER)

| | 1993 | 1994 | 1995 | 1997 | 1998 |
|--------------|------|------|------|------|------|
| Cluster N 1 | 6 | 27 | 59 | 42 | 37 |
| Cluster N 2 | 18 | 4 | 13 | 28 | 4 |
| Cluster N 3 | 7 | 10 | 2 | 4 | 30 |
| Cluster N 4 | 13 | 24 | 2 | 2 | 5 |
| Cluster N 5 | 5 | 2 | 1 | 1 | 1 |
| Cluster N 6 | 3 | 4 | 1 | 1 | 1 |
| Cluster N 7 | 10 | 1 | 1 | 1 | 1 |
| Cluster N 8 | 10 | 3 | | | |
| Cluster N 9 | 3 | 1 | | | |
| Cluster N 10 | 3 | 1 | | | |
| Cluster N 11 | | 1 | | | |

Proceeding from the above data, it become evident that in the course of the development of the ownership reform (privatization of the former public and municipal industrial enterprises and creation of new private ones, privatization of the public and municipal housing fund, placement into operation of new housing by private investors) the bigger number of regions increasingly concentrated in the 3rd cluster. Thus, given that in 1993 it comprised 15 regions, in 1995, 1997 and 1998 their number was fluctuating between 43 and 49. Along with that, one can note a certain stability in terms of some regions' positions in the lower clusters (Ingoushetia, North Ossetia-Alania, Altay Republic, Chukotka AO). These Subjects are characterized with a low level of urbanization, absence of large industrial enterprises, and developed infrastructure.

The general conclusion that can be drawn from the present classification are as follows:

- The quantitative progress of the ownership reform has entailed a gradual stabilization in terms of the distribution of regions across clusters. Notably enough, the number of regions that changed their cluster relative to 1997 practically remained unchanged compared with the number of regions that were bearing this characteristics in 1997 relative to 1995 (19 and 16, respectively).
- At the same time between 1993 to 1998 15 regions have not changed their cluster classification (Karelia, Pskov, Bryansk, Vladimir, Ivanovo, Kostroma, Ryazan, Tver, Belgorod, Kursk Oblasts, Stavropol Krai, Kurgan, Perm, Omsk, Irkutsk Oblast, while 10 regions (Leningrad, Smolensk, Penza Oblasts, Kalmykia, Dagestan, Karahaevo-Cherkessia, North Ossetia-Alania, Bashkortostan, Altay Republic, Chukotka AO) were constantly changing that.
- Interestingly, of the latter group of Subjects 7 ones are national entities (mostly Republics) in the composition of RF, while it is just one Republic – Karelia, which by its position in the hierarchy of all the Subjects of RF (national composition of the population, structure of the economy, the level of ambitions and pretension of the local elites) is much closer to the

“Russian” Krai and Oblasts, that is present in the group of the most stable regions. Hence, we arrive to the conclusion that an instability is related to the status of the Subjects, under which the Republics’ authorities possess a far greater capacity in terms of influencing the course of economic (including institutional reforms) in their respective regions compared with Krai and Oblast administrations. Practically all such regions (exclusive Leningrad Oblast and Bashkortostan) are classified as depressive or poorly developed.

- At the same time, from the perspective of economic development, the composition of the group of stable regions is not homogenous. It comprises both the most favorable, from the viewpoint of the speed of institutional transformations and adjustment to market environment, regions (Perm, Irkutsk, and Belgorod Oblasts) and obvious losers (Pskov, Ivanovo, Kurgan Oblasts). That suggests an assumption that it is the starting conditions existed prior to the launch of market reform that form a crucial factor of economic development of the post-reform Russian regions, while the depressive regions practically lack any possibilities to improve their positions considerably (a kind of vertical mobility).
- The general conclusion that can be drawn from the above is that the country has experienced the stabilization of property relations: the latter become homogenous in the overwhelming majority of the regions. However, should any change occur in the composition of the indices concerned, such a conclusion would need a revision (and that will be shown below).

6.1.2. The 2nd classification

To carry out this classification of regions in terms of privatization in industrial sector, the regions were also characterized with three indices. However, the index of the share of the non-government housing fund in the overall housing fund of the given regions was changed to

- The share of non-government industrial enterprises in the total number of industrial enterprises.

Proceeding from the main definitions of the methodology employed by Goskomstat of RF, the aforementioned indicator implies the share of industrial output by **all the enterprises not owned** by the Russian Federation (federal property), its Subjects (sub-federal property), urban and rural settlements and other municipal entities (municipal property). The said indicator de-facto comprises the produce of private enterprises and those with mixed ownership, and enterprises owned by public associations.

TABLE 1-2. DISTRIBUTION OF REGIONS ACROSS CLUSTERS BETWEEN 1993-1998 IT. (THE NUMBER OF REGIONS IN A CLUSTER)

| | 1993 | 1994 | 1995 | 1997 | 1998 |
|-------------|------|------|------|------|------|
| Cluster N 1 | 6 | 27 | 59 | 42 | 37 |
| Cluster N 2 | 18 | 4 | 13 | 28 | 4 |
| Cluster N 3 | 7 | 10 | 2 | 4 | 30 |
| Cluster N 4 | 13 | 24 | 2 | 2 | 5 |
| Cluster N 5 | 5 | 2 | 1 | 1 | 1 |
| Cluster N 6 | 3 | 4 | 1 | 1 | 1 |
| Cluster N 7 | 10 | 1 | 1 | 1 | 1 |

| | | | | | |
|--------------|----|---|--|--|--|
| Cluster N 8 | 10 | 3 | | | |
| Cluster N 9 | 3 | 1 | | | |
| Cluster N 10 | 3 | 1 | | | |
| Cluster N 11 | | 1 | | | |

Proceeding from the data from the Table, it becomes evident that in the course of the development of the privatization process in the economic sphere (privatization of the former public and municipal enterprises and creation of new private ones) the increasingly bigger number of regions were concentrating in 2 clusters, i.e. their industrial sectors were becoming increasingly homogenous from the viewpoint of indices concerned. Thus, given that in 1993 they comprised 24 regions, in 1994-31, while in 1995 and 1997 the respective number steadily was over 70. At the same time the lower clusters steadily comprised the same regions (Kalmykia, Ingoushetia, North Ossetia-Alania, Tyva, Chukotka AO). Their characteristic feature is a practically pre-industrial (except for North Ossetia-Alania) level of development (with the common aspiration shared by the majority of the Republics' authorities to maintain their control (including the property one) over the regional economy. In single cases (Ingoushetia, Chukotka AO) the development of the non-government sector in industrial sphere is constrained by objective conditions (racial conflicts, severe natural and climatic conditions). Interestingly, this observation is also applicable to 1998 that introduced a substantial change to the distribution of regions by clusters, which impacted the distribution stability indices.

The above classification suggest the following conclusions:

- The intensification of the property reform has entailed a gradual stabilization in the distribution of regions across clusters. Given that in 1994 relative to 1993 it was only 6 regions that have kept their presence to their cluster (Karelia, St. Petersburg, Novgorod Oblast, Republic of Mary-El, Rostov, and Sverdlovsk Oblast, in 1995 they were already 29 (Karelia, Komi, Vologda, Murmansk, Pskov, Vladimir, Ivanovo, Kostroma, Orel, Tula, Yaroslavl, Kirov, Belgorod, Voronezh, Lipetsk, Volgograd, Samara Oblast Kabardino-Balkaria, Karachaevo-Cherkessia, Stavropolsky Krai, Kurgan, Orenburg, Perm, Chelyabinsk Oblasts, Khakassia, Irkutsk, Chita, Kaliningrad Oblasts, Tyva), while in 1997 – 51 (Karelia, Komi, Vologda, St. Petersburg, Pskov, Bryansk, Vladimir, Ivanovo, Kostroma, Moscow, Orel, Ryazan, Tula, Yaroslavl, Nizhny Novgorod, belgorod, Lipetsk, Tatarstan, Astrakhan, Volgograd, Penza, Samara Oblasts, Adygea, Dagestan, Karachaevo-Cherkessia, Krasnodar, Stavropol Krai, Rostov Oblast, Udmurtia, Kurgan, Orenburg, Perm, Chelyabinsk Oblasts, Altay Krai, Kemerovo, Novosibirsk, Omsk, Tomsk, Tymen Oblasts, Buryatia, Khakassia, Krasnoyarsk Krai, Irkutsk, Chita Oblasts, Jewish Autonomous Oblasts, Primorsky, Khabarovsk Krai, Amur, Sakhalin, Kalinigrad Oblasts, Chukotka AO).
- The situation changed drastically in 1998, when the number of regions that maintained their attribution to the previous cluster fell once again and accounted for less than a half of the

evaluated composition (37 of 79): those were Karelia, Vologda Oblast, St. Petersburg, Pskov, Bryansk, Kostroma, Orel, Smolensk, Tula, Yaroslavl, Mary-El, Nizhny Novgorod, Astrakhan, Volgograd, Samara Oblast, Dagestan, Rostov, Kurgan, Perm, Chelyabinsk Oblasts, Altay Republic, Kemerovo, Tymen Oblasts, Buryatia, Khakassia, Krasnoyarsk Krai, Irkutsk, Chita Oblasts, Primorsky Krai, Sakhalin, Kaliningrad Oblasts, Chukotka AO).

- Between 1994 to 1998 on the whole it was just a sole region – Karelia – that has not changed its cluster. If one consider a shorter period between 1995 to 1998, the number of such regions grows to 20 (Karelia, Vologda, Pskov, Kostroma, Orel, Tula, Yaroslavl, Belgorod, Lipetsk, Volgograd, Samara Oblasts, Karachaevo-Cherkessia, Stavropol Krai, Kurgan, Perm, Chelyabinsk Oblasts, Khakassia, Irkutsk, Chita, and Kaliningrad Oblasts). Similar to the outcome of the evaluation by the first group of indices, there is an evident absence of homogeneity characteristic of the given composition of regions.
- One can assume with a great degree of certainty that the reason for the destabilization in the distribution of regions by clusters in 1998 became the financial crisis in a broad sense of this notion, which comprises the accumulation of prerequisites that had begun yet in September 1997, and the consequences of the crisis. The latter are the downfall in prices for oil and non-ferrous metals in the first half 1998 and contraction in output by enterprises dependent on import raw materials, intermediary products, assembly parts that had to downsize or even to stop their output in the wake of the crisis. Obviously, the noted factors primarily concerned the non-government industrial sector, the backbone of which was formed by natural monopolists, oil companies, giants of the ferrous and non-ferrous metallurgy, and enterprises of the processing sector connected with foreign capital. In contrast to that, thanks to the Rb. depreciation, many enterprises, including public and municipal ones that would found themselves in the depressive state prior to August-September 1998, enjoyed certain chances to restore the previously lost positions. That primarily concerns the defense sector, machine building and metal processing, whose share of public enterprises is especially big compared to other industry branches.
- A relatively new trend manifested itself in 1998: that is, the share of the non-government sector in the overall volume of industrial output nationwide not only ceased its growth (as it happened between 1993 to 1995), but it even slid slightly, providing that in some regions the share of public and municipal enterprises experienced quite a serious growth. Apart from elementary statistical drawbacks and a much more serious motivation of non-government enterprises to show lower volumes of their performance, the trend may have a more deeply rooted basis:
- The bankruptcy process that entailed the transfer of the insolvent private enterprises' assets under the government (mostly sub-federal) and municipal ownership;

- A more intensive production decline rate at those privatized enterprises at which the change of the ownership form was formal and at which no efficient owner has emerged since 1993 to 1994, while the impact on them of the 1998 crisis became the last blow (in the conditions, when such enterprises form majority in the regions, with the proportional weight of the new private sector in the region's industrial sector is extremely small);
- The granting of huge defense (including export) orders could become of a great importance to the structure of industrial output in single regions, because the effect of their fulfillment would naturally helped the growth in proportional weight of public enterprises (providing depression in the region's civic industrial sector).

6.1.3. Main conclusions

The comparison of the outcome of the completed hierarchical cluster analysis of the level of privatization of regions by the two groups of indicators leads to rather an evident conclusion on crucial differences between the formal and real sides of the process of reforming property relations.

- The analysis conducted by the first group of indicators (the share of output of non-government enterprises in the total volume of industrial output in the region; the share of employees at non-government enterprises in the total number of employees in industrial sector; the share of the non-government housing fund) has demonstrated an increasing stability in terms of distribution of regions across clusters that also reflects the stabilization of property relations which practically has not been battered by the 1998 financial crisis. Such results are directly related to the fact that the group of indicators concerned also comprised the share of non-government housing fund, which reflects the formal aspect of the property relations reform in the country, for a significant part of the national housing fund (primarily in the countryside and small towns, as well as the housing cooperatives) was not owned by the state yet prior to the beginning of radical market reforms, and the consequent housing privatization to a great extent was formal (without adequate changes in the system of management and services, along with the maintenance of their subsidy-based funding from local budgets).
- The analysis conducted on the second group of indicators (the share of non-government enterprises; the share of output of non-government enterprises in the total output in industrial sector; the share of employees at the non-government enterprises in the total number of employees in industrial sector) showed that the real side of the property relations reform is susceptible to a serious impact on the part of macroeconomic and political situation.
- In principle, the private sector's development may be attributed both to a success of privatization of the former public and municipal enterprises and to the creation of green-field businesses. However, given realities of the Russian transitional economy, one can hardly hope for the emergence of latter phenomenon in such a capital-intensive area as industrial sector. At the same time the restructuring of industrial enterprises takes a slow and contradictory pace and

experience a burden of signals from the state of affairs in the market, the constant struggle for corporate control, and the potential threat of bankruptcy, providing that the government at its various levels, primarily at the regional one, directly and indirectly is involved in these issues. The differences in the momentum of the industrial sector's adjustment are also intensified due to the general uneven economic development of regions emerged over the '90s. That is why the trend to the intensification of the homogeneity of characteristics of the regional industrial development, which clearly manifested itself between 1993 to 1997 practically vanished by 1998.

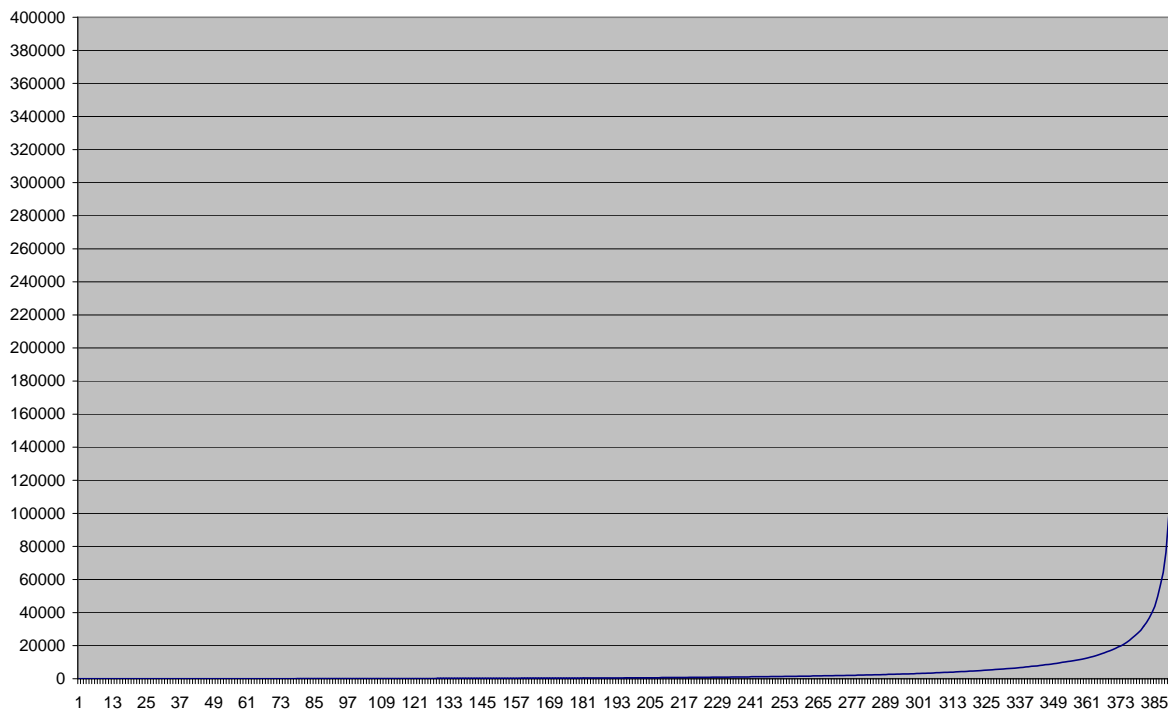
6.2. Dynamics of privatization process in industrial sector.

In this paragraph, we specify the results of the grouping of Russian regions in terms of the dynamics of privatization in industrial sector. For that purpose we consider the aggregate data on all the regions over all the years concerned rather than the annual data on each year, as in the previous case. To conduct the grouping of the region, we will employ the same indices as above ones.

The clusterization of regions will be conducted using the Ward's method. The selection of it is determined by the fact that due to its application, it is possible to break down the compositions of the objects concerned into more homogenous groups from the statistical perspective. The calculations were conducted using the SPSS applied statistical evaluation package. As an initial data, we used the information on all the regions in RF, except Nenetsky AO, Chechen Republic, Komi-Permyatsky, Khanty-Mansy, Yamal-Nenetsky, Taimyr (Dolgan-Nenetsky) AO=s; Evenk, Uts-Ordynsky Buryatsky, Aginsky Buryatsky, and Koryaksky AO=s for 1993, 1994, 1995, 1997, and 1998. There was no data available on Republic of Ingoushetia for 1993 and 1994 (see Annex P.5.1.1).

Fig. 2-1 provides a chart showing the dependence of the distance of the merged clusters on the number of the clusterization algorithm iteration, while Annex P 6.1.1 provides the sequence of the grouping of 78 regions (except Republic of Ingoushetia) in clusters on the basis of the data for 1993 to 1998 (except 1996)

FIGURE 2.1. THE DEPENDENCE ON THE DISTANCE OF UNITED CLUSTERS ON THE ITERATION NUMBER



The Chart provided in Fig.2-1 demonstrates that until the 372 algorithm iteration the distance between the merged clusters does not exceed a 5% maximal distance between merged clusters. In addition, starting from the 373rd iteration, the dependence of the distance between the merged clusters becomes exponential. Due to this, it appears expedient to stop the algorithm right after the 372nd iteration. Considering the data for 5 years, this results in the breakdown of all the Russian regions in question into 20 clusters. Table 2-1 presents coordinates of the centers of the final clusters.

Annex P.6.2 provides results of the clusterization according to initial data. In addition, it shows how different regions carried out their transition from cluster to cluster in different years. The evaluation of the respective output shows that until 1997 Russia demonstrated a general trend to alleviation of the industrial privatization rate. At the same time some, though insignificant, lowering of the privatization rate took place in 1998. The same fact is shown in Fig.2-2. In 1994 vs. 1993 of 78 regions 63 raised the level of privatization in industrial sector, while 13 remained in the same cluster, and 2 regions lowered the level of privatization in industrial sector; in 1995 vs. 1994 49 regions raised the level of privatization in industrial sector, while 29 remained in the same cluster; in 1997 vs. 1995 of 79 regions 32 raised the number of their cluster, while 37 remained in the same cluster, and 10 regions lowered the number of their cluster; in 1998 relative to 1997 only 3 regions raised the number of their cluster, while 22 decreased that and 54 kept that the same. In addition, one can draw a conclusion of a stabilization of the privatization level of industrial sector in the regions. In 1993 at least one region was in 16 clusters of 20 (of which 9 clusters comprised at least 5 regions); in 1994 – 17 (6); in 1997 – 11 (4); in 1998- 13 (4).

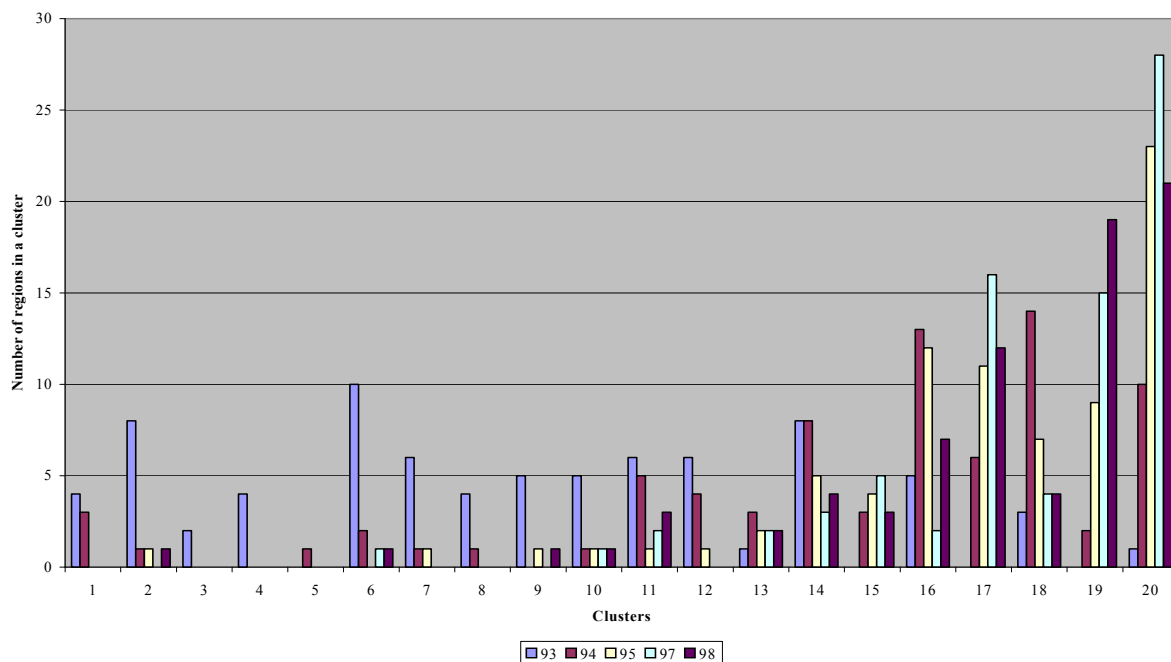
TABLE 2-1. CENTERS OF CLUSTERS

| Cluster | II1 | II2 | P | index |
|---------|-----|-----|---|-------|
|---------|-----|-----|---|-------|

| | | | | |
|---------------------|-------|-------|-------|--------------|
| Cluster № 1 | 43,39 | 12,24 | 19,10 | 20,53 |
| Cluster № 2 | 71,62 | 14,33 | 18,20 | 26,20 |
| Cluster № 3 | 42,93 | 32,63 | 32,40 | 34,40 |
| Cluster № 4 | 28,60 | 6,80 | 73,50 | 36,43 |
| Cluster № 5 | 26,20 | 57,35 | 37,30 | 43,99 |
| Cluster № 6 | 84,24 | 35,26 | 38,12 | 45,24 |
| Cluster № 7 | 58,30 | 50,60 | 46,63 | 50,47 |
| Cluster № 8 | 79,40 | 57,54 | 41,20 | 55,21 |
| Cluster № 9 | 68,56 | 60,53 | 57,36 | 60,76 |
| Cluster № 10 | 89,30 | 55,27 | 65,16 | 65,24 |
| Cluster № 11 | 83,08 | 75,95 | 62,29 | 71,98 |
| Cluster № 12 | 63,78 | 78,47 | 69,75 | 72,45 |
| Cluster № 13 | 82,26 | 69,91 | 72,18 | 73,02 |
| Cluster № 14 | 91,87 | 62,18 | 80,99 | 74,80 |
| Cluster № 15 | 92,84 | 79,71 | 73,35 | 79,64 |
| Cluster № 16 | 86,95 | 85,68 | 76,44 | 82,35 |
| Cluster № 17 | 91,57 | 81,53 | 84,23 | 84,39 |
| Cluster № 18 | 84,66 | 90,59 | 84,60 | 87,21 |
| Cluster № 19 | 95,23 | 89,80 | 86,67 | 89,58 |
| Cluster № 20 | 93,02 | 94,89 | 92,28 | 93,55 |

The results of the above classification prove the aforementioned conclusion (see 6.1.3.) that the dynamics of the non-government sector's development is related primarily to the status of the regions. Of 10 regions that lowered the number of their clusters in 1997 4 are national-territorial entities in RF, while of 22 regions that lowered the number of their cluster a year later – 9 (including both Republics and Jewish Autonomous Oblast and Chukotka AO). It is most likely that these Subjects' authorities have greater possibilities (relative to Krai and Oblasts) to influence the structure of industrial output in their regions by maintaining a number of enterprises in their ownership instead of their potential privatization, creation of new unitary sub-federal enterprises, encouraging growth in the volume of output and employment at such enterprises in the frame of the local structural and industrial policy by loading their capacities through state orders, both federal (thanks to their lobbyist efforts in Moscow) and local ones, and provision them with financial support from the budget. Basically, Moscow (which also was included in the group of 22 regions) also may fall in this group.

FIG.2.2. THE NUMBER OF NON-EMPTY CLUSTERS IN DIFFERENT YEARS



The hypothesis of the impact of purely political factors on the level of privatization of industrial sector in a certain region appears less convincing. Thus, of 10 regions that lowered the number of their cluster in 1997, the Heads of administrations were changed only in 3, while of 22 regions that lowered their cluster a year ago – only in 5 (including Murmansk and Kaliningrad Oblasts in which the winners became the representatives of so-called “third force” (not the candidates supported by the leftist opposition).

6.3. The curves of privatization in industrial sector

This paragraph deals with consideration of classifications of regions in terms of similarity of the privatization processes in industrial sector and dynamics of the share of non-government housing. For this purpose, let us built four classifications by each of the indices:

- The share of non-government industrial enterprises in the total number of industrial enterprises (P1);
- The share of output at non-government industrial enterprises in the total output of industrial enterprises in the region (P2);
- The share of employees at non-government industrial enterprises in the total number of employees at industrial enterprises (E);
- The share of the non-government housing fund in the overall housing fund of the region (H),- and conduct their evaluation.

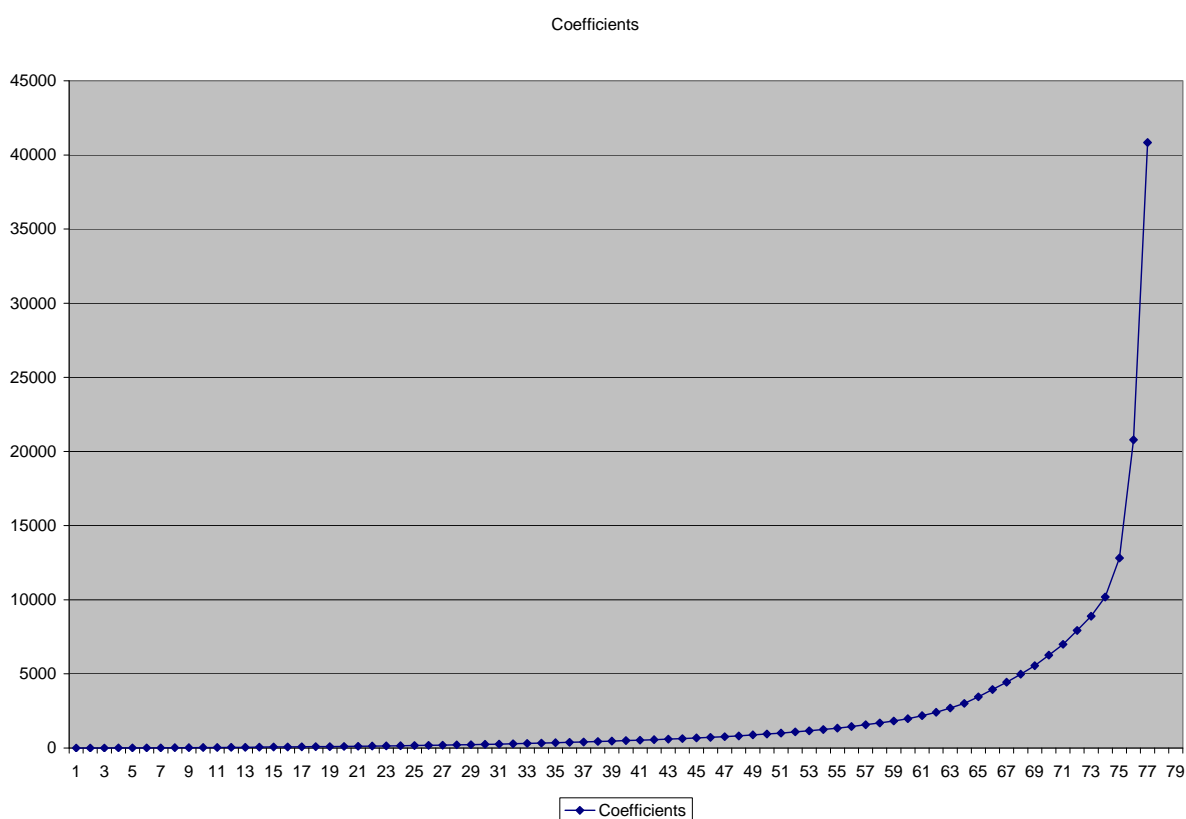
To classify the curves of privatization in industrial sector, we used the data on all the regions, except Nenetsky AO, Republic of Ingoushetia, Chechen Republic, Komi-Permyatsky AO, Khanty-Mansy AO, Yamal-Nenetsky, Taimyr (Dolgan – Nenetsky) AO=s; Evenk AO, Uts-Ordynsky Buryatsky AO, Aginsky Buryatsky AO, Koryak AO for 1993, 1994, 1995, 1997, and

1998 (see Annex P5.1.1.). To classify the curves of the share of the non-government housing sector, as an initial information we used the data on all the regions except Chechen Republic, for 1993, 1995, 1997, and 1998 (see Annex P.5.1.2.)

6.3.1. Dynamics of the share of non-government industrial enterprises

Fig. 3-1 shows the chart of the dependence of the distance between the merged clusters on the number of the clusterization algorithm iteration. Annex P6.1.2. demonstrates the sequence of the classification of 78 regions into clusters by their curves of change in the share of non-government industrial enterprises in the total number of industrial enterprises.

FIG.3.-1 THE DEPENDENCE OF THE DISTANCE OF THE MERGED CLUSTERS FROM THE ITERATION NUMBER



The chart on Fig. 3-1. shows that until the 66th iteration of the algorithm the distance between merged clusters does not exceed a 10% maximal distance between merged clusters. In addition, starting from the 67th iteration, the dependence of the distance between the merged clusters on the number of iteration becomes exponential. That is why it appears expedient to stop the algorithm right after the 67th iteration. That leads to the breakdown of all the regions in question in 10 clusters.

Table 3-1. Presents the breakdown of the regions into the given 10 clusters and provides coordinates of the centers of the clusters, i.e. the average curves of changes in the shares of non-government industrial enterprises in the overall number of industrial enterprises.

TABLE 3-1. COMPOSITION AND CENTERS OF CLUSTERS

| Cluster | 1993 | 1994 | 1995 | 1997 | 1998 | Regions |
|---------|------|------|------|------|------|---------|
| Russia | 71,8 | 82,3 | 89,1 | 92,8 | 91,9 | All |

| | | | | | | |
|-----------|-------|-------|-------|-------|-------|---|
| 1 | 86,10 | 87,35 | 92,33 | 95,06 | 94,86 | Vologda Oblast, city of St. Petersburg, Bryansk Oblast, Vladimir Oblast, Kaluga Oblast, city of Moscow, Moscow Oblast, Orel Oblast, Smolensk Oblast, Yaroslavl Oblast, Belgorod Oblast, Lipetsk Oblast, Astrakhan Oblast, Volgograd Oblast, Stavropolsky Krai, Udmurt Republic, Orenburg Oblast, Chelyabinsk Oblast, Omsk Oblast, Chita Oblast, Sakhalin Oblast, Republic of Buryatia, Irkutsk Oblast |
| 2 | 81,05 | 82,00 | 87,26 | 88,69 | 88,07 | Arkhangel's Oblast, Pskov Oblast, Kostoma Oblast, Tver Oblast, Chuvash Republic, Kursk Oblast, Tambov Oblast, Republic of Tatarstan, Kurgan Oblast, Kirov Oblast, Republic of Bashkortost |
| 3 | 76,31 | 90,07 | 94,17 | 96,35 | 95,74 | Ryazan Oblast, Tula Oblast, Voronezh oblast, Samara Oblast, Republic of Adygea, Karachaevo-Cherkessia, Rostov Oblast, Sverdlovsk Oblast, Republic of Altay, Altay Krai, Novosibirsk Oblast, Republic of Khakassia, Primorsky Krai, Kaliningrad Oblast |
| 4 | 70,29 | 80,00 | 86,68 | 91,46 | 90,74 | Murmansk Oblast, Novgorodskaya Oblast, Ivanovo Oblast, Republic of mary –El, Penza Oblast, Ulyanovsk Oblast, Kabardino-Balkaria, Amur Oblast, Tomsk Oblast, Jewish Autonomous Oblast |
| 5 | 64,50 | 29,00 | 78,90 | 81,90 | 79,30 | Republic of Mordovia |
| 6 | 57,41 | 83,71 | 90,13 | 94,77 | 93,80 | Republic of Karelia, Nizhny Novgorod Oblast, Kemerovo Oblast, Tymen Oblast, Khabarovsk Krai, Kamchatka Oblast, Magadan Oblast |
| 7 | 54,70 | 64,50 | 71,90 | 80,30 | 81,55 | Komi Republic, Republic of North Ossetia-Alania |
| 8 | 44,08 | 87,20 | 91,94 | 96,16 | 95,52 | Leningrad Oblast, Saratov oblast, Krasnodar Krai, Perm Oblast, Krasnoyarsk Krai |
| 9 | 37,70 | 51,00 | 94,40 | 96,60 | 75,40 | Dagestan Republic |
| 10 | 30,70 | 53,25 | 69,33 | 81,75 | 78,73 | Republic of Kalmykia, Republic of Tyva, Republic of Sakha (Yakutia), Chukotka Autonomous Okrug |

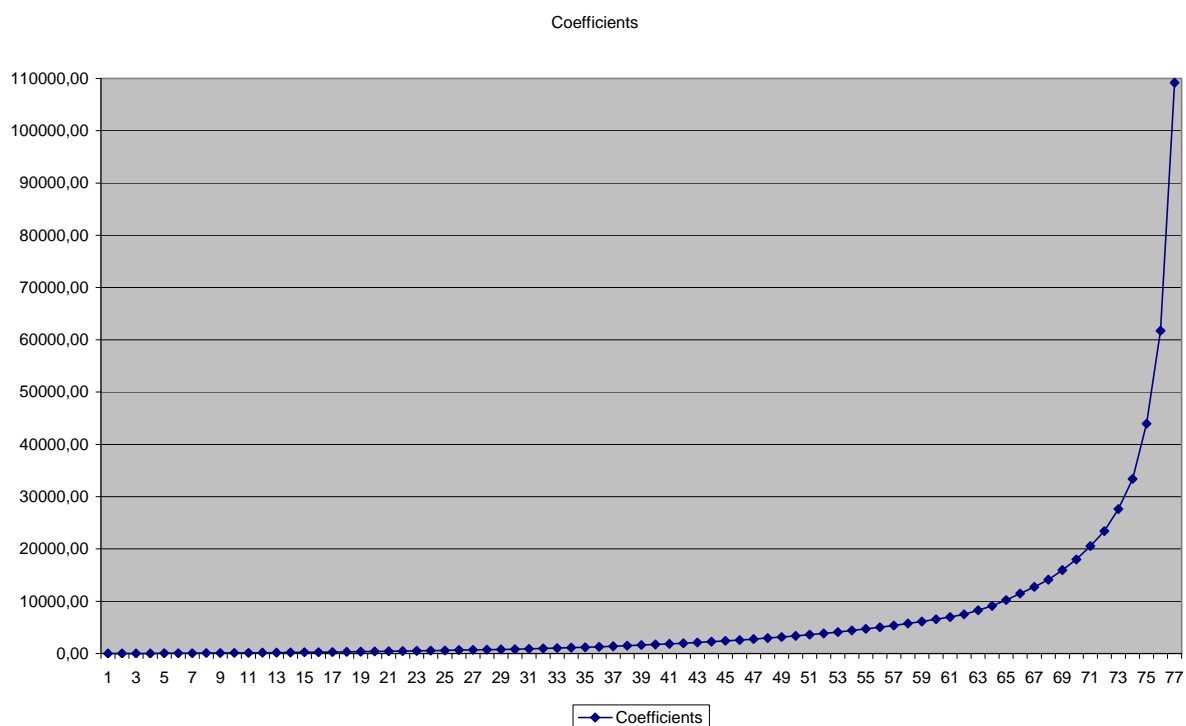
The above clusters are characterized with the following regularities: the first cluster comprises 23 regions with the initially high share of non-government enterprises and its high growth rate over the following years. The second cluster comprises 11 regions that had rather a high share of non-government enterprises, however, then the growth in the share was such that in 1998 it became lower than the average one nationwide. As concerns 15 regions that formed the 3rd cluster had the share of non-government enterprises was higher than the average one in 1993, while in 1994 their share experienced a sharp rise, and they become leaders by this indicator and kept their positions hence. The fourth cluster was formed by 10 regions in which the growth in the share of non- government enterprises roughly was correspondent to the average one nationwide. In the 6th cluster, 7 regions that formed that originally had the share of non- government industrial enterprises slightly over a half of the total number of those in the region. The 8th cluster was formed by 5 regions whose share of non-government industrial enterprises accounted for under 50% of their total number by 1993, while in 1997 they have caught up the regions of the third cluster in this respect. In the 10th cluster, 4 regions had had the lowest level of privatized industrial enterprises in 1993 and, despite their high rates of privatization until 1997, remained at a relatively low level (79% of non-government enterprises by a cluster on the average vs. the average 92% across the country).

6.3.2. Dynamics of the share of output of non-government industrial enterprises in the overall volume of output in industrial sector.

Annex P.6.1.3. shows the sequence of the classification of 78 regions by clusters by their curves of the change in the share of output of non-government industrial enterprises in the overall

volume of output in industrial sector. Fig. 3-2 provides the chart of the dependence of the distance between the merged clusters on the number of algorithm iteration of clusterization

FIG. 3-2. THE DEPENDENCE OF THE DISTANCE BETWEEN THE MERGED CLUSTERS ON THE ITERATION NUMBER.



Similar to Annex P.6.1.3., the chart presented at Fig. 3-2 shows that until the 66th algorithm iteration the distance between the merged clusters does not exceed 10%. In addition, starting from the 67th iteration, the dependence of the distance between the merged clusters on the iteration number becomes exponential. That is why it appears expedient to stop the algorithm right after the 67th iteration. That leads to the breakdown of all the regions concerned into 10 clusters.

Table 3-2 provides the breakdown of the regions into 10 final clusters and coordinates of the centers of those, i.e. the average curves of the change in the share of non-government industrial enterprises in the total number of industrial enterprises.

TABLE 3-2. COMPOSITION AND CENTERS OF CLUSTERS

| Cluster | 1993 | 1994 | 1995 | 1997 | 1998 | Regions |
|---------|-------|-------|-------|-------|-------|--|
| 1 | 65,84 | 92,27 | 94,90 | 94,75 | 93,50 | Republic of Karelia, Tula Oblast, yaroslavl Oblast, Vologograd Oblast, Samara Oblast, Republic of Karachaevo- Cherkessia, Stavropol Krai, Orenburg Oblast, Chelyabinsk Oblast, Republic of Khakassia, Chita Oblast |
| 2 | 58,69 | 79,49 | 86,67 | 88,19 | 88,85 | Republic of Komi., Murmansk Oblast, city of St. Petersburg, Novgorod Oblast, city of Moscow, Republic of Mary-El, Kirov Oblast, Nizhny Novgorod Oblast, Tambov Oblast, Krasnodar Krai, Rostov Oblast, Republic of Bashkortostan, Sverdlovsk Oblast, Kemerovo Oblast, Republic of Sakha (Yakutia) |
| 3 | 76,02 | 75,33 | 86,00 | 84,40 | 83,41 | Arkhangel'sk Oblast, Ryazan Oblast, Tver Oblast, Kursk Oblast, Astrakhan Oblast, Tomsk Oblast, Jewish Autonomous Oblast, Kamchatka Oblast, Sakhalin Oblast |
| 4 | 88,03 | 91,79 | 93,71 | 93,19 | 91,73 | Vologda Oblast, Pskov Oblast, Bryansk Oblast, Vladimir Oblast, Ivanovo Oblast, Kostroma Oblast, Belgorod Oblast, Lipetsk Oblast, Kurgan Oblast, Perm Oblast, Omsk Oblast, Irkutsk Oblast |
| 5 | 14,34 | 76,58 | 86,74 | 85,94 | 83,36 | Leningrad Oblast, Chuvash Republic, Penza Oblast, Republic of Adygea, |

| | | | | | | |
|----|-------|-------|-------|-------|-------|---|
| | | | | | | Kransoyarsk Krai, Primorsky Krai, Khabarovsk Krai, Amur Oblast |
| 6 | 36,35 | 83,66 | 85,20 | 86,68 | 86,64 | Kaluga Oblast,, Orel Oblast, Voronezh Oblast, Saratov Oblast, Republic of Kabardino-Balkaria, Udmurt Republic, Altay Krai, Tymen Oblast, Republic of Buryatia, Magadan Oblast, Kaliningrad Oblast |
| 7 | 30,65 | 39,60 | 77,30 | 80,60 | 87,80 | Moscow Oblast, Novosibirsk Oblast |
| 8 | 44,28 | 65,02 | 67,68 | 67,42 | 62,90 | Smolensk Oblast, Republic of Tatarstan, Republic of North Ossetia-Alania, Altay Republic, Republic of Tyva |
| 9 | 7,00 | 11,83 | 74,93 | 82,65 | 80,90 | Republic of Mordovia, Republic of Kalmykia, Ulyanovsk Oblast, Republic of Dgestan |
| 10 | 56,60 | 21,80 | 26,90 | 39,00 | 39,40 | Chukotka Autonomous Okrug |

6.3.3. Dynamics of the share of employees at non-government industrial enterprises in the overall number of employees in industrial sector.

The chart presented at Fig. 3-3 shows the dependence of the distance between the merged clusters on the number of the algorithm iteration of clusterization by the curves of the changes in the share of employees at non-government industrial enterprises in the overall number of employees in industrial sector. Annex P.6.1.4. provides the sequence of the classification of 78 regions into clusters.

Both the chart and the results provided in Annex 6.1.4. show that until the 66th algorithm iteration the distance between the merged clusters does not exceed 10%. In addition, starting from the 67th iteration, the dependence of the distance between the merged clusters on the iteration number becomes exponential. That is why it appears expedient to stop the algorithm right after the 67th iteration. That leads to the breakdown of all the regions concerned into 10 clusters.

FIG. 3-3 THE DEPENDENCE OF THE DISTANCE OF THE MERGED CLUSTERS FROM THE ITERATION NUMBER

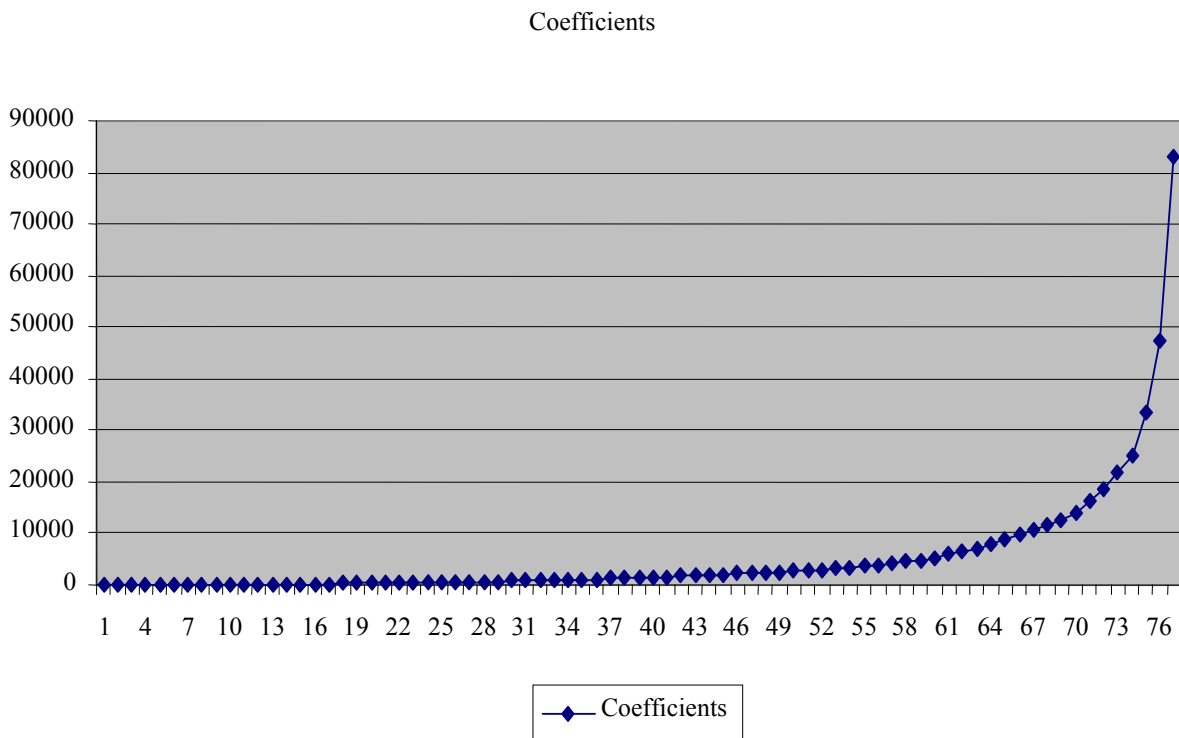


Table 3-3 provides the breakdown of the regions into 10 final clusters and coordinates of the centers of those, i.e. the average curves of the change in the share of non-government industrial enterprises in the total number of industrial enterprises.

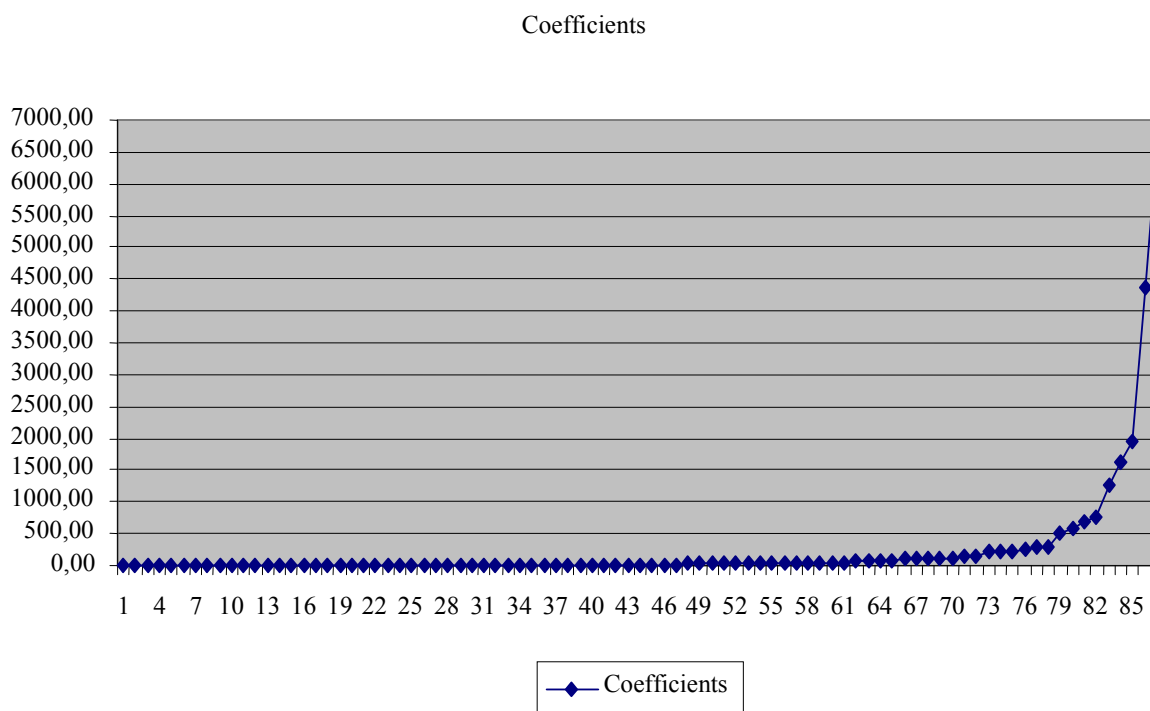
TABLE 3-3. COMPOSITION AND CENTERS OF CLUSTERS

| Cluster | 1993 | 1994 | 1995 | 1997 | 1998 | Regions |
|---------|-------|-------|-------|-------|-------|--|
| 1 | 70,96 | 83,30 | 88,90 | 91,91 | 89,42 | Republic of Karelia, Pskov Oblast, Bryansk Oblast, Vladimir Oblast, Ivanovo Oblast, Kostroma Oblast, Tver Oblast, Tula Oblast, Yaroslavl Oblast, Nizhny Novgorod Oblast, Kursk Oblast, Astrakhan Oblast, Volgograd Oblast, Samara Oblast, Kurgan Oblast, Orenburg Oblast, Perm Oblast, Irkutsk Oblast, Chita oblast, Jewish Autonomous Oblast, Sakhalin Oblast |
| 2 | 44,56 | 64,51 | 71,84 | 81,63 | 79,40 | Komi Republic, city of St. Petersburg, city of Moscow, Republic of Tatarstan, Republic of Bashkortostan, Udmurt republic, Republic of Sakha (Yakutia) |
| 3 | 56,63 | 66,78 | 68,83 | 69,65 | 68,65 | Arkhangel'k Oblast, Republic of Mary-El, Omsk Oblast, Tomsk Oblast |
| 4 | 78,68 | 93,52 | 94,45 | 95,90 | 93,88 | Vologda oblast, belgorod oblast, Lipetsk Oblast, Republic of Karachaevo-Cherkessia, Stavropol Krai, Republic of Khakassia |
| 5 | 60,63 | 78,24 | 81,11 | 83,16 | 80,86 | Murmansk Oblast, Novgorod Oblast, Ryazan Oblast, Tambov Oblast, Krasnodar Krai, Sverdlovsk Oblast, Chelyabinsk Oblast, Sltay Republic, Kamchatka Oblast |
| 6 | 39,41 | 80,12 | 85,24 | 86,97 | 86,11 | Leningrad Oblast, Kaluga Oblast, Orel Oblast, Smolensk Oblast, Kirov Oblast, Voronezh Oblast, Saratov oblast, Republic of Kabardino-Balkaria, Rostov oblast, Altay Krai, Kemerovo Oblast, Tymen Oblast, Kemerovo Oblast, Tymen Oblast, Republic of Buryatia, Magadan oblast , |
| 7 | 29,53 | 49,65 | 65,95 | 67,80 | 67,95 | Moscow oblast, Republic of North Ossetia-Alania, Novosibirsk Oblast, Republic of Tyva |
| 8 | 18,70 | 75,23 | 83,50 | 87,20 | 80,68 | Republic of Mordovia, Chuvash Republic, Penza oblast, Republic of Adygea, Primorsky Krai, Khabarovsk Krai, Amur Oblast, Kaliningrad Oblast |
| 9 | 13,83 | 21,70 | 68,45 | 82,53 | 76,60 | Republic of Kalmykia, Ulyanovsk Oblast, Republic of Dagestan, Krasnoyarsk Krai |
| 10 | 42,80 | 25,80 | 29,80 | 91,40 | 33,90 | Chukotka Autonomous Okrug |

6.3.4. Dynamics of the share of non-government housing in the total volume of housing fund.

Annex P.6.1.5 provides the sequence of the classification of 88 regions into clusters according to their respective curves of the change in the share employees at non-government industrial enterprises in the overall number of employees in industrial sector. Fig 3.-4. Presents a chart of the dependence of the distance between the merged clusters on the number of clusterization algorithm iteration.

Fig.3-4. Dependence of the distance between the merged clusters on the number of iteration



Both the chart and the results provided in Annex 6.1.5. show that until the 78th algorithm iteration the distance between the merged clusters does not exceed 5% of the maximal distance between the merged clusters. In addition, starting from the 79th iteration, the dependence of the distance between the merged clusters on the iteration number becomes exponential. That is why it appears expedient to stop the algorithm right after the 78th iteration. That leads to the breakdown of all the regions concerned into 10 clusters.

Table 3-4 provides the breakdown of the regions into 10 final clusters and coordinates of the centers of those, i.e. the average curves of the change in the share of non-government industrial enterprises in the total number of industrial enterprises.

TABLE 3-6. COMPOSITION AND CENTERS OF CLUSTERS

| Cluster | 1993 | 1994 | 1995 | 1997 | 1998 | Regions |
|---------|------|------|------|------|------|---|
| 1 | | | | | | Republic of Karelia, Republic of Komi, city of St. Petersburg, Khanty-Mansy Autonomous Okrug, Kamchatka Oblast, Koryal Autonomous Okrug, Magadan Oblast, Sakhalin Oblast |
| 2 | | | | | | Arkhangel'sk Oblast, Nenetsky AO, Murmansk Oblast, city of Moscow, Moscow oblast, Samara Oblast, Republic of Bashkortostan, Udmurt Republic, Perm Oblast, Tomsk Oblast, Tymen Oblast, Yamalo-Nenetsky AO, Republic of Tyva, Krasnoyarsk Krai, Irkutsk Oblast, Republic of Sakha (Yakutia), Primorsky Krai, Khabarovsk Krai, Kaliningrad Oblast |
| 3 | | | | | | Vologda Oblast, Novgorod Oblast, Pskov Oblast, Bryansk Oblast, Vladimir Oblast, Ivanovo Oblast, Kaluga oblast, Kostroma Oblast, Orel Oblast, Ryazan Oblast, Smolensk Oblast, Tver Oblast, Tula Oblast, Yaroslavl Oblast, Republic of Mary-El, Republic of Mordovia, Chuvash Republic, Kirov Oblast, Nizhny Novgorod Oblast, Belgorod Oblast, Lipetsk Oblast, Tambov Oblast, Republic of Kalmykia, Republic of Tatarstan, Astrakhan Oblast, Volgograd Oblast, Penza Oblast, Saratov Oblast, Ulyanovsk Oblast, Republic of Adygea, Kurgan Oblast, Orenburg Oblast, Komi-Pemytasky AO, Sverdlovsk Oblast, Chelyabinsk Oblast, Altay Krai, Kemerovo |

| | | | | | | |
|-----------|--|--|--|--|--|---|
| | | | | | | Oblast, Novosibirsk Oblast, Republic of Buryatia, Chita Oblast, Jewish Autonomous Oblast, Amur Oblast |
| 4 | | | | | | Leningrad Oblast, Evenk AO |
| 5 | | | | | | Voronezh oblast, Kursk Oblast, Republic of dagestan, Republic of Kabardino-Balkaria, Republic of North Ossetia-Alania, Krasnodar Krai, Stavropol Krai, Rostov Oblast, Republic of Altay, Omsk Oblast, Ust-ordynsky Buryatsky AO, Aginsky Buryatsky AO |
| 6 | | | | | | Republic of Ingoushetia |
| 7 | | | | | | Republic of Karachaevo-Cherkessia |
| 8 | | | | | | Republic of Khakassia |
| 9 | | | | | | Taimyr (Dolgano-Nenetsky) AO |
| 10 | | | | | | Chukotka AO |

Annex P.6.4. contains the comparison of the above classifications for the purpose of identification of the utmost similarity between the regions in terms of the privatization policy pursued at the respective level.

Chapter 7. The privatization program of the federal center and regional policy. Final conclusions and recommendations.

7.1. Approaches to the solution of post-privatization problems and policy options in the area of ownership relations at the federal level.

The gradual overcoming of the effects of the 1998 financial and economic crisis based upon the renewal of economic growth appeared the main contents of Russia's development over the last to years. The new stage of economic reform, the start of which may be considered mid-2000, actualize the need and possibility of solving the problem of modernization of the national economy and social problems. Everyone shared the idea that it cannot be possible without overcoming the state's weak position and its more qualitative exercising of its functions practically.

As concerns the area of ownership relations, the state regulation of the economy conditionally can be divided into two components: 1) control (participation in the control) over public property, and 2) regulation of operations of economic agents of all forms of ownership. The latter, including such matters as the creation of a favorable entrepreneurial and investment climate through protecting ownership rights (primarily those of stockholders (investors) and creditors), development of the whole range of financial markets, the market for land and real estate, forms an independent agenda that expands well beyond the frame of the present research.

7.1.1 The state policy of management of public property and privatization program.

The program ("Main directions of social and economic policy of the Government of the Russian Federation for a long - term perspective") approved by the RF Government in summer 2000 reasonably proceeds from the recognition of the following main directions in the government's policy:

- Enhancement of the efficiency of managing public property remained in the state ownership;

- Privatization of a considerable part of the state property.

At the same time three main types of objects of such a policy are singled out: 1) public enterprises; 2) economic entities with the governmental participation; and 3) real estate. Proceeding from the set of objects, the program of measures has been laid down.

As concerns **public companies**, - their transformation into JSC with 100% of their stock in federal ownership or contribution with them in an authorized capital of another JSC, over 75% of whose stock, in turn, is owned by the federal government (with the refusal of exercise the right of economic control). As to **economic entities with the governmental participation** - optimization of the governmental participation in such entities on the basis of making decisions on a further fixing of the economic entity's stock in the government ownership, assignment of those to the sub-federal or municipal authorities' ownership, sales of such a stock or liquidation of the entity (in the vent of the continuation of the fixing of the stock in the government ownership the program strictly stipulates the purposes for such a governmental participation in the capital and methods of their realization in a contract with a manager). The program of measures on managing the state-owned real estate appears more detailed. It comprises the formation of a complete register of the federal real estate, strict division and coordination of powers of all the government agencies involved in the process (with the establishment of uniform procedures for the decisions to be made with respect to the use of the federal property for all the Subjects of RF), application of the market valuation mechanism in the course of the use of real estate (with the equalization of rental payments collected for the use of the state real estate and the respective rates emerged in the market); inspections and introduction of a strict control over the use of real estate by public companies and institutions (targeted nature, orientation to market rental rates, nature of benefits, possibility of withdrawal), creation of a legal base in terms of the mechanism of control over federal assets, including the elaboration of the problem of reimbursement of costs incurred managing that; provision of the respective personnel.

The strategy of public property privatization proposed in the government program is of a general nature and contains only a general scenario-based forecast and single basic principles, such as the declaration of the need in adoption of anew privatization law, approaches to changes in ownership rights for objects of intellectual property and land lots, regulation of foreign capital's participation in privatization.

The document links the need in the adoption of a new privatization law to a number of artificial restrictions introduced by the current privatization law (of 1997). The key question that arises in this respect is whether the noted law bear a universal nature, i.e. whether it should, apart from the usual circle of matters, regulate the foreign capital's participation in privatization, problems of changes of forms of ownership of intellectual property and land lots. The document does not provide any clear answer to the question and just states the need of establishment of a

single legal regime of constraints on non-residents' acquisition of certain types of property, including their access to the strategically important sectors. As concerns intellectual property, in analogous fashion the law postulates a reference to some anonymous federal laws that would allow to put the things in array in terms of determination of rights for objects of intellectual property created at the expense of public funds and for control over them. Such objects can be included in the composition of the property complex of the enterprise that owns them for the purpose of privatization, with the identification of objects of intellectual property that are no subject to privatization in the composition of property of public unitary enterprises and assigned to the noted enterprises for the use as per the respective agreement.

To regulate land relations, it is proposed to include in the law the respective provision, along with the establishment of the principle of simultaneity of estrangement of the object of real estate and the land site it occupies and the identification of kinds of land sites that cannot become subject to estrangement or which become subject to a special estrangement regime.

Whilst estimating in general terms the approaches to the public property management stipulated in the RF government's program, one needs to stress that generally it is based on the logic of optimization of ownership structure regular for market transformations, preferably through the contraction of the number of objects owned by the state, for the sake of ensuring the existence of stable prerequisites for economic growth. At the same time such a logic may face objectively existing, serious contradictions that manifested themselves yet at the stage of monetary privatization between 1995 to 1998, the most important of which are:

- The contradiction between the need in maximization of budget revenues through the sales of public assets (stakes and whole enterprises) and the absence of an adequate effective demand (especially in terms of unprofitable or poorly profitable enterprises) and a direct threat of collapse of the stock market;

- The contradiction between the theoretical possibility of sales of the most attractive enterprises (or their stakes) and a practical inefficiency of such sales due to an evident undervaluation of their assets and lobbyist efforts on the part of large financial groups, different agencies and managing bodies disguised as structural and legal reorganizations.

The problem is that the main mass of the property still held by the state is represented either by the objects that are not attractive enough to the main mass of the domestic investors, or by very attractive objects (for instance, control or blocking stakes in national monopolies), the sales of which, if any, are possible only at an adequate market prices and in the presence of certain preconditions.

Even if the political conditions allow elimination the latter contradiction (and the practice of the last 2 years gives some grounds to assume that) and the government is not eager to maximize its budget revenues by a number of categories of its property, the problem of the absence of an

adequate effective demand (especially by unprofitable, poorly profitable and capital-intensive enterprises of a certain profile) may become very grave, as well as the threat of turmoil at the stock market.

That is why the quantitative estimates laid down in **the scenario-based forecast of privatization of public property** appear excessively optimistic and radical. The proposed contraction in the number of federal enterprises to 1.5- 2.5 Thos. by 2004 implies the privatization of at least 3-4 Thos. companies annually. Such figures do not appear significant by themselves and approximately correspond the number of enterprises (objects) privatized between 1997 to 1998. However one should take into account that the official statistical data also includes in the noted value the redemption of real estate and land sites under the earlier privatized enterprises. Considering this factor, the number of enterprises (objects) privatized annually should correspond to the indices noted between 1995 to 1996, which appears problematic. Besides, the compulsory prerequisites for the realization of such a scenario are the complete discontinuation of creation of public enterprises over those years, a serious correction of the privatization apparatus and - in a number of cases- also the carrying out of costly pre-sale procedures.

The specifics of the property mass that the government continues to hold determines an adjustment of the privatization apparatus both in favor of relatively new for Russia methods (sales according to results of direct negotiations with investors, issuance of derivative securities) and the use of “old good methods” that very used intensively at the stage of mass privatization (rent with the following redemption, attraction of the working collective as an owner, sales in installments), but taking into account the new context (market valuation of assets, revised schemes of benefits, etc.). The quantitative diminishing of public sector is possible, of course, both through privatization and by compulsory integration of incorporate enterprises into holding structures, but the latter to a significant extent is an “occasional” measure, for it finds itself strongly dependent on the specifics of the sector and the assets still held by the state.

The scenario forecast of the privatization of public property relates the contraction in the number of public entities and institutions with the size of their funding by the state (in a form of direct financing and payments for the state order) which generally is not true. In developed market economies, the state order is commissioned to enterprises of all the ownership forms. Moreover, the companies in private sector have considered that especially profitable for decades, and it is distributed in the conditions of a cutthroat competition. The real problem is the level of maturity of economic agents in the Russian non- governmental sector and their ability to carry out certain tasks of national importance and in a strict correspondence of such tasks to the general economic strategy of the country’s development. The approach that ambiguously relates the number of public enterprises and institutions with the government’s financial capacity may be practiced only in single cases.

The principle of the simultaneity of the estrangement of the object of real estate and the respective land site appears in principle correct. However, its direct fulfillment is feasible with respect to a small group of fully government-owned enterprises, bearing in mind the privatization through the sales of a single property complex or emergence of new businesses at the idle areas and equipment of the liquidated public enterprises.

The specification and regulation of numerous exceptional cases from this rule, which have been already noted in practice, is much more actual. That, primarily, concerns the problem of using the land sites by enterprises designated for incorporation. This requires the solution of a whole complex of problems related to the price for such lots, their inclusion in the authorized capital of the future JSC which, finally, should have an impact on the prices for its stock and consequent quotations in the stock market. At the same time the group of JSC created yet in the course of privatization, which have not yet redeemed their respective sites, is fairly numerous. The strict application to them of the principle of simultaneity of the estrangement of the real estate object and the respective land site requires some acceleration of the process of acquisition of the lots which, in turn, is hardly possible without introduction of a system of positive and negative incentives. The former may become beneficial rates in the event of the acceleration of redemption of sites (with the time period being strictly defined), while the latter may become higher rates in the event of the redemption of the sites beyond the limits of the said time period in conjunction with the current land payments due and bankruptcy schemes.

In other words, this problem necessitates the expediency of application of the approach declared in the context of the measures on managing the government-owned real estate: that provides amendments to the current mechanism of sales of real estate objects that implies that, in compliance with the privatization law, the priority right for acquisition of real estate at a low price is held by a limited circle of persons. It is proposed to keep the said regulation, however for a limited period of time, with a transition to the identification of the sales price to be based upon market valuation. Naturally, as long as the redemption of land lots is concerned, in terms of territories and sectors one should consider a significantly greater differentiation of rates.

In fact, one can speak of a close interrelation and mutual dependence between privatization of public property and measures on managing **the state-owned real estate** in the part of creation of conditions for attracting investment in the real sector through a maximal involvement of real estate in the civil turnover (including the provision of incomplete objects under construction to investors under the most beneficial terms). The majority of such conditions are absolutely necessary, however, fairly complex in terms of their implementation. That especially concerns the introduction of new market mechanisms of control over federal property, such as mortgage, trust, and the contribution with the right for use to an authorized capital.

The thesis concerning the right for a permanent (with no time limit) use of land lots should be granted only to organizations funded from the budget and private individuals that should use the land only for non-commercial purposes needs a certain specification. In the present conditions, the organizations whose budget funding is insufficient have some “other” revenues, legal and “shadow” ones alike. The phenomenon of latent commercialization has embraced a significant part of institutions in the social sphere, however, that is unlikely to become the reason for depriving them of their chances to permanently use the land sites they occupy - apparently, a criterion of purposes of their operations should be more fair.

7.1.2. Government policy towards economic agents

In contrast to control (including privatization) over real estate, the objects of which are certain material assets (buildings, facilities, land sites), the government ownership policy towards the enterprises that are fully (public unitary enterprises) or partly (economic companies with a government share in their capital) owned by the state has its substantial specifics: the policy deals with already existing legal entities on the basis of integral property complexes that carry out concurrent economic operations and hold certain positions in the market for goods and services. Naturally, in the event of liquidation procedures with respect to some enterprise an analogy to the sales of real estate is possible, but in the present conditions that is an exceptional case rather than a rule.

The basic approach of the government program in relation to **public unitary enterprises** appears their accelerated incorporation. The latter proceeds from the thesis on a complete (except the objects that ensure national security) privatization in the sectors with a certain potential for survival and growth, along with the attraction of domestic and foreign investors to them and the turnover of the respective companies' stock in the security market. It is envisaged that the program of transformation of public unitary enterprises into JSC with their 100% of stock owned by the federal government should be completed by late 2001.

From the purely formal point of view, the implementation of such an approach should simplify their privatization. At the same time one should bear in mind that a hasty incorporation of the public unitary enterprises inevitably narrows the field for the restructuring privatization, when the enterprise is sold as a single property complex- production equipment with buildings, facilities and the land site they occupy (a popular privatization option in the former GDR). At the same time, a transformation of that into JSC with a high level of probability would entail the arising problems of breaking the joint-stock capital into stakes for their sales and valuation. One cannot exclude, of course, the variant of implementation of the restructuring privatization scheme through the liquidation of the public enterprise and emergence of new businesses using the idle capacities and equipment.

Another argument in favor of the most urgent transformation of public enterprises into JSC with 100% of their stock fixed in the state ownership is the latter's poor performance in its capacity of owner. However, in the conditions of the Russian transitional economy, in which many privatized enterprises do not demonstrate even their new private owners' efficiency and manageability, one should hardly expect that a simple change of the organizational and legal form in the frame of the public form of ownership should have an immediate positive impact on the enterprise's state. A shining example of that are the problems characteristic of the largest joint-stock companies with the government participation²¹.

The unification in the same classification feature of the presence of "survival and growth capacity" is also very erratic for the decision-making process on privatization of a certain enterprise. The economic practice of the '90s convincingly showed that those are different criteria, to say nothing of such trivial things as an extremely insignificant volume of investment from outside even in the most attractive Russian companies whose shares are the only quoted stock in the stock market, while such prospects are more than doubtful to the enterprises that currently find themselves completely in the government ownership.

Proceeding from that, it would be more sensible to consider the Concept for management of public property and privatization in RF (of September 1999). The Concept provides an orientation to a gradual decrease in the number of public and municipal unitary enterprises and a parallel implementation of the complex of measures on improvement the control over them. Such a complex comprises:

1. Identification of:

-the circle and the number of unitary enterprises needed for exercising functions of the state;

- of the objectives of the state in terms of every enterprise and institution.

2. Introduction of:

-the procedures for the heads of unitary enterprises and institutions to report on the progress in implementation of the set program (plan);

the procedures for the managerial decision-making process in the vent of the failure to reach the government's objective or accomplish the planned task;

- the criteria and procedures for transfer of a part of the enterprise's profit to the budget.

²¹ The envisaged effect from the planned transformation of the federal railway transport in the frame of the RF Ministry for Railway Transportation into a 100% public-owned joint-stock company "Russian Railways" appears at least not so much evident. The electric power and gas sectors that underwent incorporation yet in 1992 and united in large holdings ("RAO 'UES Russia" and "Gasprom", with their control blocks owned by the state, have failed to demonstrate a far better efficiency compared with railways that, in turn, similar to the holdings, carried out internal changes in the frame of the program of reforms in the sphere of natural monopolists. During last decade, all three sectors experienced similar problems: non-transparent financial flows, cross-subsidizing, and the aging of capital assets being close to critical.

3. The tightening of control over operations of the enterprises, institutions and their heads.

The implementation of main provisions of the government Program with respect to **economic entities with the government participation, the overwhelming majority of which constitute JSC**, potentially is capable to help a better maintenance of the government's interests in the corporate governance area. In practice, however, a lot will depend on the actual use of the apparatus and specific mechanisms some of which are evaluated below.

Due to this problem, it appears possible to discuss the feasibility and necessity of a whole range of short-, medium-, and long-term measures. As concerns *short-term measures* (up to 1 year), it is expedient to hold a re-registration of state representatives and to identify those JSC in which they voted for the dilution of the federal stake, along with the analysis of the situation at such enterprises with respect to compliance with the law. Some steps have been already undertaken in this direction, and in 1999 over 150 representatives of the state in JSC were changed.

In the framework of a *medium-term horizon* (for the forthcoming 2-3 years), the main issue will be the specification of legitimacy of the government property in different JSC, depending on a number of criteria, of which the key one is the size of the government participation in the authorized capital of JSC. As concerns majority blocks (over 38% of the authorized capital), there should be a set of norms and procedures that would allow the state in its capacity of strategic owner to exercise control functions; while considering minority blocks (under 25%) - one should speak of a set of norms and procedures that would allow the state in its capacity of one of many owners to exercise its control functions over the enterprise's operations.

At present the specification of the legitimacy of the state ownership in different JSC requires solution of three particular problems: 1) making the activities of individuals representing the state interests in JSC more strictly defined and regulated through amending the respective legislative acts (mostly those lying beyond the framework of the legal procedures and competence of the Federal Assembly); 2) introduction of elementary control mechanisms over financial flows and the process of at least simple capital reproduction in mixed companies with the state participation in their capital and integration of such mechanisms in the schemes of activities of individuals representing the state interests in JSC; 3) inventory and ranging of the government-owned stakes in terms of regions and sectors, from the perspective of execution of the revenue part of the budget at all tiers, implementation of the most urgent institutional reforms, not excluding the possibility of pursuing a more active structural and industrial policy in the future.

As long as the improvement of the control over JSC with government participation is concerned, the Concept for management of state property and privatization adopted by the RF Government as a perspective document in the area of reforming the ownership relations reasonably proceeds from the need of concluding strict contracts with the managers that provide their

responsibility for their performance, introduction of a constant economic monitoring, register of economic efficiency that should stipulate future results of the enterprise's functioning. Thus, the Concept shares the principles and approaches described above, with respect to unitary enterprises.

The list of the most urgent measures needed to accomplish the aforementioned tasks comprises the introduction of standard reporting forms of the RF representatives in JSC of open type (October 1999), creation of the register of economic efficiency indicators for federal public unitary enterprises (FPUP) and JSC (open) whose shares are owned by the federal government (January 2000), transition to the annual approval of economic efficiency indicators for FPUP and JSC (open) (with the share of the federal property over 50%), control over reaching the planned rates of such indicators and the use of their assets, identification of the proportion of FPUP=s' profit subject to transfer to the budget, recommended volume of dividends for the voting of RF representatives in the managing bodies of JSC (open) (February 2000), regulation of procedures of appointment the government representatives and their interaction with the Ministry for Property Relations and the respective sectoral managing agencies, due to the size of the state-owned stake, including temporary set deadlines for the submissions of notifications, suggestions, memorandums, consents, provision of directions in writing, reports on the participation in the work of managing bodies of enterprises (March 2000).

It appears that the further necessary elements of the improvement of the process of management of blocks (shares) remained in the government ownership could be as follows:

- bringing the Model Agreement on representation of the state interests (approved in May 1996) into line with the aforementioned documents;

- in order to minimize the chances of an opportunist and interested behavior, cancellation of the right of the state representatives (both attorneys and civil servants), in the event of the absence of directions from the superior managing bodies for their independent making decisions on the circle of matters subject to coordination;

- the solution of the problem of a mechanism of a direct encouragement of the work of each government representative and attorney by allocating to them, in certain amounts, of some part of dividend receipts from the state-owned packages (The Concept for management of public property and privatization suggests the allocation of not less than 10% of dividends received by the budgets on the stake owned by the federal government, for the purpose of funding the expenditure related to the management of the stake, but the Concept does not contain any specific schemes in this regard);

- ensuring the representation of the state interests in the large and most important JSC by personnel of the government management bodies for whom this activity should become a principal one, along with the approval of their annual work by the government;

-improvement (an identification of the limits of rewarding and compensation for the costs incurred by the trust manager, solution of the problem of licensing the activity with respect to trust management, proceeding from the law “On securities market”, along with the organization and conducting of the respective register), and a gradual expansion of the practice of application of the trust of stakes of enterprises (of no strategic importance) owned by the federal government;

-for the purpose of selection of personnel and the decisive stop of abuses, the introduction of the provision on future exclusion from the institution of government representatives of individuals who have been dismissed from the exercising of their functions due to their unscrupulous exercising of their duties (with a detailed list of descriptions of the nature of such abuses and the respective sanctions), along with the development of a data base which could contain a full information on all the individuals ever represented state interests in JSC.

The inventory and ranging of the state-owned stakes in regional terms require somewhat more detailed analysis. At this point, the key element of the a.m. Concept is the assignment of the stakes into the ownership of Subjects of the Federation as an off-set of the federal budget’s obligations, providing that the Subjects should put forward the development program for the given enterprise.

While tackling this matter, a more expedient move, however, would be the application on the Subjects’ property (at least, with respect to those enterprises whose stakes the federal center is going to assign to the regions) of all the a.m. management schemes and mechanisms (in analogue to the federal stock packages). The launching of such a process should be preceded with a detailed scrutiny of the situation at the enterprises whose shares have been already assigned to the regional authorities. It would be necessary to conjunct the possibility of the transfer of the federal stock packages under the Subjects’ ownership with the number already fixed shares of the regions’ property (including municipal one), term of their privatization, efficiency of the previous sales, along with the inclusion of all these matters in official documents on interbudgetary relations.

In the light of the recent initiatives of the federal center on reforming the public administration structures and strengthening the vertical of power (the legislative package of presidential decrees and bills went public in May-June 2000), the problems of a clear division of competence between the Federation, its Subjects, municipal establishments in the area of reforming property relations, including property management become especially important. With the introduction of the institution of plenipotentiary representatives of the President in 7 Federal Supra-regions, certain possibilities arise in terms of the organization of representation of the federal center’s interests at enterprises of mixed form of ownership and control over the quality of the representation.

In *long-term perspective* (up to 5 years) one can consider a gradual building of a logical system of management of the state-owned stock, shares in JSC and other enterprises of the mixed

form of ownership on the basis of an individual approach to each object and the principle implying the guidance of programs and objectives. That suggests a mandatory identification of the purposes of the state's participation in the capital of a certain enterprise, a strict formulation of the respective challenges and a fixing of the way of influencing on the object of management in the respective documents, should the efficient control instruments be in place.

At this stage, in addition to the main objectives of the medium-term stage (a more or less qualitative performance of the enterprises with the government participation set in the course of fixing their stakes in the government ownership, growth in non-tax receipts to the budgets of all tiers), the state could follow a number of other objectives related to ensuring sustained preconditions for economic growth.

In the Concept for managing public property and privatization, one naturally regards as independent purposes of the management of public assets in JSC the encouragement of production and its diversification, improvement of financial and economic indicators of such enterprises' performance, attraction of investment, optimization of administrative costs, and carrying out institutional transformations in the economy. To achieve such goals, one needs to employ such methods as the use of state-owned stock packages (to ensure credits and investment), capitalization of the enterprise's arrears to the budget and contribution to the authorized capital of newly created JSC with land lots, along with the consequent sales or trust of the newly issued stock, creation of vertically-integrated corporate structures, enterprises restructuring with the singling out of the property complex needed to solve the tasks of the national scale, and sales of other assets, as well as the employment of various privatization procedures.

At the same time one needs to take into account the fact that any work on enterprises restructuring along with a separation of certain production of theirs requires a great deal of caution and a lot of time, because of the need of a thorough consideration of the whole complex of the related circumstances, primarily the estimation of the possibility of diminishing the objects per se (for they were built as a single technological complex) and a thorough elaboration of the related technical aspects.

The problem of creation of competitive holding structures with the contribution of the state is also a real challenge, because the consideration of the technical aspect of the problem (compatibility, interrelation and mutual complementary nature of the enterprises to be integrated) is supplemented with the requirements to concentrate the public assets up to the level that would allow an efficient control along with a minimization of administrative costs.

7.2 Approaches to the solution of post-privatization problems and policy options in terms of ownership relations on the regional level.

Proceeding from the analysis above, one can note 2 groups of problems related to privatization that may impact the process of further development of the Russian regions. The first

group comprises the privatization policy itself, which is understood in a narrow sense, as the sales of state-owned property to private individuals, while the other group comprises the whole block of privatization-related and post-privatization matters.

Being very significant for Russia's further socio-economic development, the latter are: formation of an efficient owner, interaction between the privatized enterprises and public administration bodies, attraction of investment for the purpose of restructuring of the real sector. Practically all of these problems appear very urgent for the overwhelming majority of the RF regions.

The main recommendations on the shaping of the privatization policy may look as follows: first, a strict compliance with, and following the requirements of the present federal law, the basis of which constitute the State Program of privatization of public and municipal enterprises in RF approved by Presidential Decree of December 24, 1993, # 2284 and its Main Provisions after July 1, 1994, approved by Presidential Decree of 22 July, 1994, # 1535, Law "On privatization of the state property and on fundamentals of privatization of municipal property" (# 123-FZ, signed by the President on July 21, 1997).

In the present conditions, one can discuss three main objects for sale: the privatized enterprises' stock, their land sites and the real estate renter mostly by small-size enterprises.

Since the main part of enterprises has been already privatized, it is worthwhile not to accelerate the further privatization process. Any attempt of a mass sale of a great number of stock over a short period of time, proceeding, for instance, from the consideration of raising revenues to the local budget, may lead to the fall in the offer price and the decline on the said revenues as well as to a collapse in the stock market. A great probability of such a scenario is intensified by the limited free monetary resources of local potential subjects of privatization (private sector, already privatized enterprises, private individuals), providing that outsiders whose flow one could expect from other regions (primarily financial centers) are oriented to operations with the already steady corporate securities portfolio.

It appears that the privatization policy should be differentiated towards stock of the enterprises that started their privatization yet only in the post-voucher era as well as the enterprises whose shares have been already on sale, mostly through the closed subscription and at voucher auctions. The possibilities for this are contained in pp.3.5.2. and 3.5.3. of "Main Provisions..." that enable the local authorities to use the coefficient 0.7-2.0 to the starting stock prices. At the enterprises that participated in the voucher privatization, as a rule, the primary property structure has already emerged, that is why for some owners the stock packages still held by the state and sold in the post-voucher period (usually under 20%) by their significance become close to control blocks, which makes their actual value far superior to the face-value. Such a situation is also favorable for holding commercial tenders with investment conditions. This recommendation, of

course, does not concern minor stock packages that have been left at the disposal of local Property Funds (PF) after voucher auctions and which do not allow the regional authorities to influence the management at the privatized enterprises. Being insignificant in terms of identification of the ownership structure at a certain enterprise, such stock packages can be successfully sold at monetary auctions. One should also take into account that the enterprises privatized prior to the expiry date of the vouchers cannot receive those real investments, for which the enterprises fully privatized for cash may hope (here we mean the allocation of 51% of gains from the privatization of the given enterprise to itself) Proceeding from the above it is these enterprises which should be possibly considered priority candidates for receiving cash resources for their restructuring by selling their state-owned stakes at a maximally high price.

Another important factor that can impact the formation of the sales policy and the state of the stock market in the regions is the possibility of the stockholders' meeting to make a decision on holding the secondary stock issuance due to the re-valuation of capital assets and, accordingly, the authorized capital. In connection with that, the regional PF=s should receive an additional number of stock, while still holding their shares in the JSC's capital (if there still is any). Should the enterprise has a good rating, such a re-valuation may bring about a new accent in the breakdown of the state-owned stock package into lots for their sale and in the accomplishment of such a sale.

The absence of profit as a result of a complicated financial position of the majority of privatized enterprises makes it rather unpractical to consider a possible dividend inflow in the territories' budgets. Nonetheless, it appears necessary to have regional property management agencies scrutinize the enterprises' financial positions in terms of a possible dividend inflow and treat those as another revenue source of a significance similar to the one of rental payments. In any event, the forecast of the demand for the stock at certain enterprises is desirable: such a forecast should be based on the enterprise's profitability rate, quotations at the secondary market, evaluation of possible buyers, their financial capacity and impact on the prospects of JSC's development.

Considering the importance of the federal government's control over natural monopolists one can hardly regard the hasty sales of stock packages of local electric plants and communication companies owned by the head holding companies of the largest national corporations the prices for whose services mostly determine the dynamics of the costs inflation in the regions. That is why one should consider it important to have representatives from the regions vigorously participate in the discussion on the plans of the restructuring of the all-Russia energy monopolist in the framework of a working group created according to the initiative of the RF President in December 2000 in the frame of the State Council. It is also necessary to activate their contribution to the work of the holding's governing bodies, proceeding from their capacity as stipulated by the law on RAO "UES Russia" of 1998 (the use of the part of the federal stake in proportion to the volume of electric power consumed).

It is the redemption by the privatized enterprises of their land sites that forms an important element of the whole privatization strategy. Originally, the redemption price for land was set at a very high level (the 200-fold land tax rate, as per the RF Government's Resolution of November 3, 1994, # 1204) which substantially inhibited the whole process. Then according to Decree of the RF President of May 11, 1995, # 478, the respective value was decreased to a 10-fold land tax rate with a 3-fold increasing coefficient.

In the framework of the possibilities on the formation of the local authorities' policy with respect to land sites under the privatized enterprises, it appears expedient, without raising the sales price up to the maximum, to hold its maximal differentiation, proceeding from both the enterprise's location and the term of its privatization (in analogy with stock). It would be fair if the enterprises that passed through voucher auctions had a chance to redeem their sites at a price lower than those that began their privatization after June 30, 1994, as an additional compensation for practically a complete absence of investment during the voucher privatization, while the enterprises privatized directly for cash have had a chance to attract investment.

The redemption of the enterprises' sites may help them to improve their financial situation through leasing or selling some surplus areas, thus increasing their own attractiveness to creditors and investors in their capacity of a mortgage instrument. The benefits to the local budgets are also evident, for tax revenues will be generated thanks to sales of land sites at the secondary market.

The other serious reserves for privatization practically throughout the country are the sales of real estate, indebted enterprises, the assets of liquidated enterprises and incomplete objects under construction.

As concerns the privatization of real estate, it appears fairly simple, on the one hand, while, on the other, it bears the potential of great losses. According to GKI RF (1994), the value of the privatization of real estate is comparable to all the assets sold in the course of the first stage of privatization. Due to the existence of the local specifics, it appears impossible to develop any recommendations from outside, except the general advice to comply with the existing legislative acts on the sales of the rented non-apartment objects and idle facilities.

By their economic contents the sales of the assets of liquidated enterprises (since 1993, there has been only a. 1,300 such companies) and incomplete objects under construction (in all 300 units between 1995 to 1997; the data on 1992-93 and 1998-99 is not available) are closely related to the sales of real estate. Similar to the case of the privatized enterprises' stock, at this point one needs a shrewd and sound elaboration of investment projects, and, if that is impossible to have them implemented,- to employ the auction method.

A new, really more efficient than the government owner, can not emerge in a day. In principle, this problem could be solved in the course of the secondary re-distribution of the primary (shaped over the voucher stage of privatization, highly dispersed) property structure, providing that

favorable external conditions are in place (both locally and nationwide) (low inflation, political stability, etc.). In the modern market economy such owners are institutional investors (banks, investment and insurance companies, pension funds) that concentrate in their portfolio large stakes of non-financial (including production) companies.

In Russia today such structures partly are at the stage of their emergence (pension funds and insurance companies), while the others survive a natural decline caused by the transition of the reforms into another quality (voucher investment funds). The financial crisis in the country in August-September 1998 has proved the genuine doubts regarding the capability of the Russian banks to efficiently exercising the corporate control (and strategic stock ownership) functions that are characteristics of commercial banks in the Continental Europe. That is attributed both to the significant role played by corporate managers in the corporate policy and the lack of the connection “the strategic share- (trust, mortgage) holder and the source of funding” in terms of banks. It was very few cases noted between 1995 to 1997 that the Russian commercial banks proved to be capable to ensure an efficient restructuring of enterprises of the real sector they acquired and to bear the costs of control over them. Though not being the primary reason for the collapse of the national banking system in August-September 1998, the yoke of such problems (and it has become generally accepted knowledge of hardships that faced the trade and banking capital after privatization of “ZIL”, Ust-Ilimsky Forestry Plant, Angarsky Petrochemical Plant) instead of the originally expected revenue source, nonetheless, to a certain extent has contributed to that.

The a.m. crisis served as an evidence to the fact that the currently emerged in many directions Russian model so far has not yet influenced the improvement of the privatized enterprises’ efficiency in their performance. Though the major part of their stock was concentrated in the hands of relatively large institutional holders (not just banks), at that stage (considering the factor of the government’s serious undervaluation of assets in the course of privatization) it was designated for re-selling at the stock market rather than acquiring a proper control over, and management of the enterprise. Therefore, the concentration of stock packages in the hands of large holders by itself is not a synonym to the emergence of an efficient owner interested in long-term investment and enterprises restructuring. In many cases such holders lacked both financial capacity and managerial background for that. In addition, it has become publicly known that having got large institutional investors as their new co-owners, nonetheless, some enterprises found themselves in a deep crisis.

Proceeding from the above, one may assume that it would be expedient to envisage the emergence of an efficient owner both on the part of external institutional investors and market-oriented and the most advanced heads and managers of enterprises directly at the privatized enterprises, with a desirable support from a part of workers-stockholders or single institutional investors-outsiders who would be ready to ensure investment in such enterprise or guaranteed stakes

of their produce. The local authorities in the Subjects of RF are able just to help this process by forming the respective program of commercial tenders with investment conditions on the basis of their own evaluation of a certain enterprise's prospects (at this point, a close collaboration between of property management bodies and departments that form the economic block of local administrations is needed), initiative search for, and selection of investors.

The a.m. considerations primarily concern large enterprises and, of course, it is highly probable that small - and medium-size enterprises whose owners are local businesses or their employees should demonstrate a favorable performance.

Conclusion

During the reform period in Russia, the relationship between different tiers of the government has had a significant impact on the property reform in the country. As concerns the reform, it passed through three stages:

- The pursuance of the mass privatization and the primary fixing of private property rights based on the prevalence of the federal center's guidelines (1992-1994);
- The emergence of a new property structure on the basis of the redistribution of the property privatized at the first stage and implementation of the monetary privatization in the conditions of a serious weakening of the federal center and introduction of the Subjects of the Federation to the process of control and use of the property (1995-1998);
- The regulation of the relationship between the federal center and regions with respect to property relations on the basis of the building of the government vertical and the superiority of the federal law, with its economic contents being the control over federal property in order to raise non-tax revenues to the budget system (as of today), pursuance of restructuring of a number of sectors, attraction of investment in production, and structural and industrial policy (in perspective) (between mid 1999 until now).

On the whole the Russian regions were relatively homogenous from the perspective of formal indicators of the privatization process (the general dynamics, along with the dynamics of privatization across different kinds of public property), though as long as the structure of the whole mass of privatized enterprises (objects) is concerned, there was a substantial inter-regional differentiation in terms of correlation between different kinds of public property.

At the same time among all the regions there was a group of the Subjects that was notably different from the others by the noted characteristics of the privatization process. All such regions are characterized with a larger share of enterprises (objects) privatized after 1994 compared with the respective average nationwide index, providing that such enterprises (objects) mostly comprised enterprises owned by the Subjects of RF and federal objects), and one of the privatization methods

at that time was incorporation. However the economic content of the noted characteristics within the group is different.

On the one hand, it comprises the Subjects that consciously distanced themselves from the general privatization model, such as Moscow, Tatarstan, Bashkortostan, Kalmykia, and Ingoushetia) and pursued a “catching-up” privatization, while, on the other, it comprised the regions that, due to various reasons (privatization restrictions, specifics of their profile industries) maintained a big number of public enterprises after the completion of the mass privatization stage (and such enterprises became subject to the further monetary privatization) – Moscow, Perm, Tomsk, Kamchatka Oblast, Krasnoyarsk Krai), or the regions that already upon the completion of privatization of the majority of enterprises during the voucher stage began to engage to the privatization process new categories of objects (such as real estate, land, indebted enterprises) using non-standard methods: Arkhanegl’sk, Vologda, Ivanovo Oblasts).

The differences between Russian regions in terms of implementation of concrete variants of the privatization policy are determined by both objective and subjective factors:

- The group of objective factors comprises natural and climatic conditions that affected the regions economic performance and the specialization of the regions economies emerged by the ‘90s in the framework of the integral economic complex of the former USSR and RSFSR. Along with the provisions of the state privatization programs of 1992, 1993 and Main Provisions of theirs after July 1, 1994 that contained a detailed sectoral classification of enterprises and objects by the feasibility and level of their privatization, that determined a scenario of the change in property relations in the given region’s economy;
- The subjective factor is the status of a concrete Subject of RF that determined its authorities’ political weight and influence in terms of their efforts to impact the implementation of a certain scenario of privatization policy.

The noted factors equally concerned both the “large” and the “small” privatization. The small privatization appeared far less intensive in the Far North regions and areas equaled to them as well as in the regions whose authorities pursued an economic policy different from that of the federal government (many Republics in Povolzhye and the North Caucasus, Ulyanovsk and Lipetsk Oblasts). Analogously, as concerns the “large” privatization, one can speak of the government’s maintenance of a far greater (compared to the average level nationwide) level of ownership control over corporate sector during the post-privatization period (by fixing in the government ownership stock packages and inclusion of the “Golden Share” in enterprises’ authorized capital) in the majority of regions of West Siberia, Moscow, and in the whole range of national Republics (Karelia, Komi, Tatarstan, Bashkortostan, Ingoushetia, Kabardino-Balkaria, North Ossetia). The Republics demonstrated a great activity in terms of minimizing the use of benefits designated for labor collectives of the privatized enterprises as per the national privatization model. On the

contrary, they were more vigorous in applying such “exotic” for the other regions methods as the IIIrd variant of benefits in the course of incorporation, trusting the stakes or assignment of those to a holding company, transformation of public and municipal enterprises into ‘open’ joint- stock companies with their 100% stake fixed in the government or municipal ownership.

Proceeding from the results of the main privatization procedures, the outcome of the evaluation of inter-regional differences in terms of the level of competitiveness of the privatization process has proved to be somewhat unexpected :

- As concerns the results of the implementation of the “small” privatization program by the territories where labor collectives became owners of less than a half of all the privatized objects, it was many regions of Siberia and Far East, along with some North-West regions, in which, proceeding from the initial conditions for market reform, one should have envisaged a weak interest in those on the part of buyers-outsiders, due to such regions’ remote location from the centers of business activity, low purchasing capacity, etc.;
- Proceeding from formal signs, in terms of regions, the insider control over the newly established joint-stock companies (at least over a short-term post-privatization period) has proved to be outspread to a less extent (the lowered proportional weight of such enterprises relative to the average nationwide value) mostly in the group of the regions that were the least successful territories from the viewpoint of adjustment to new conditions and their consequent development. That suggests the doubtfulness of the thesis of insiders’ prevalence in the structure of the privatized enterprises’ capital, which was widely accepted in the early ‘90s, as a main obstacle to production modernization though its restructuring and attraction of foreign investment needed for renewal of a sustainable economic growth based on the effect of market mechanisms.

The area of the outspread of non-standard (complementary) privatization methods allows, to a certain degree of conditionality, to argue about the existence of a correlation between their application and the politics of the Subjects’ authorities.

Their most vigorous (in terms of quantity) and broad (proceeding from the whole range of them) use, indeed, was noted in the regions that are considered shining examples of an intensive promotion of market reform in the country (Vologda, Yaroslavl, Rostov, Saratov, Sverdlovsk Oblasts), but not only there. The same intensity of the use of such methods was also noted in Ivanovo, Tver, Kemerovo, and Chita Oblasts, with their depressive local economies and the least prosperous social situation there. Should we limit the range of non-standard methods with only two ones, the group would be complemented with a whole range of regions with a great variety of their economic and socio-political characteristics. Considering an insignificant proportional weight of enterprises (objects) privatized by using the non-standard methods, one should realize the secondary role of this factor for the evaluation of cross-regional differences in privatization process.

Proceeding from the index of the overall number of public enterprises, as of the start of privatization, the considerable cross-regional differentiation in the property structure emerged over the late '90s demonstrates an evidently limited nature of privatization in the national-territorial entities. Nonetheless, proceeding from the analysis of the structure of industrial production, such differences have rather a loose impact on the cross-regional differentiation of enterprises' performance in terms of their ownership form, providing the abstracting from the nature of privatization (with the government, in many cases, keeping its ownership and other control over formally privatized enterprises).

The correlation between the trend to some rise in the proportional weight of public and municipal enterprises in the overall volume of industrial output, which manifested itself for the first time in 1998, and personal reshuffles in the regions' leadership and changes in their political orientation.

The detailed recommendations in the area of development of further approaches to property relations reform (primarily, privatization and control over public property) are provided in Chapters 2 and 7, while it is intended to tackle the challenges of the post-privatization development (primarily, corporate governance) in a separate research.

At this point, it should be noted that the problem of emergence of an efficient owner should not be reduced to the post-privatization challenges, because it is the renewed public sector (comprising some enterprises that are focused on design and manufacturing of certain kinds of produce (delivering of works and services) that fall under the sphere of the RF's national interests and ensuring the national security, production of single kinds of goods withdrawn from the civic turnover or limited in that, carrying out subsidized activities, running unprofitable production and using the properties whose privatization has been prohibited, that may and should become a component of the currently emerging mixed national economy. It is evident that the above implies such sectors as the provision of the functioning of air- and water transport, polygraphic sector, medical and microbiological, defense sectors, Research and Design works, etc. One should not exclude that such a solution might become optimal for some earlier privatized enterprises in other sectors of the economy, should they turn out to be insolvent. As concerns the municipal property, one can discuss its role in solving social challenges, for in some specific sectors, such as passenger transport, trade with single kinds of goods and services at a minimal price, healthcare, education, culture, etc., is designated to serve as a buffer against various hardships of the transition period.

The majority of the post-privatization challenges (the emergence of an efficient owner, corporate governance attraction of investment,, integration with other economic agents) should be addressed by enterprises themselves, while the regional authorities should practice only an indirect impact on them:

- By initiating and participating in the decision-making process in terms of personnel and changes of the JSC leadership (in the frame of legal norms and the stakes in the JSC);
- Through changes in the structure of their property, by arranging in some way for the sales of the state-owned stakes;
- Through regulating financial support (if that, by itself, does not conflict with principles and nature of interbudgetary relations), implementing bankruptcy procedures, accession to various projects that require the local authorities' help in any way;
- By helping enterprises to separate their economic activity from the social one, through accepting from them their social and cultural objects and using those rationally.

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Select bibliography on privatization in Canada

The published literature on privatization in Canada is surprisingly thin. In large measure this is because academic commentators have not had access to the negotiations, which can be lengthy and complex, or even the documentation of transactions, which are likewise cumbersome and not easily understood. Much of what does exist is not found in mainstream journals or widely published books. The best (though now unfortunately somewhat dated) overview materials, beside the data compilations undertaken by the Fraser Institute and the Borden law firm (Borden et al 1997), are: Tupper, A., and G.B. Doern (1988): Privatization, public policy, and Crown corporations, Institute for Research in Public Policy, Montreal; Harrison and Stanbury (1990); Schultz, A. (1990): "Privatization, deregulation and the changing role of the state: lessons from Canada," Business in the Contemporary World, 3:1.

An authoritative overview of the financial consequences and accounting treatment of privatization in Canada has been published by the central bank: Levac, M. and P. Wooldridge (1997). "The fiscal impact of privatization in Canada," Bank of Canada Review.

The Auditor General has from time to time published trenchant accounts of particular transactions (Canada, Auditor General, 1997), as well as general concerns about the changing nature of accountability in a variety of alternative service delivery modes. All are available through their website, www.oag-bvc.gc.ca.

The Fraser Institute in Vancouver has a number of publications on privatization. See their website, www.fraserinstitute.ca. The Centre for the Study of State and Market at the university of Toronto's Law School has compiled a number of case studies, including Canadian National Railways, Nav Canada, and the Alberta liquor outlets. These are of inconsistent quality, however. A few are excellent.

By contrast there is an enormous literature on public-private partnerships. For the Canadian case, the publications of the Canadian Council for Public-Private Partnerships are the most useful. Internationally, the practice is best developed in the united Kingdom, whose Treasury has published widely on the subject. There is also a great deal of literature cited on the World Bank's website, www.worldbank.org.

General academic musings about the changing nature of government, the boundary between private and public sector activity, and accountability problems that arise from time to time are numerous, but some of the best are from the short-lived KPMG Centre for Government partnership with the Institute of Public Administration of Canada:

Ford, R., and D. Zussman, eds. (1997). Alternative service delivery: sharing governance in Canada

Lindquist, E., and T. Sica (1995). Canadian governments and the search for alternative program delivery and financing: a preliminary survey

In the same vein there are also:

Boase, J. (2000). "Beyond government? The appeal of public-private partnerships," Canadian Public Administration, 43:1

Hall, M. and P. Reed (1998). "Shifting the burden: how much can government download to the non-profit sector?" Canadian Public Administration, 41:1

Lovink, J.A.A. (1999). "Choosing the right autonomy for operators of privatized government," Canadian Public Administration, 42:3

Annex to Chapter 3

Annex 3.1. “Lands reserved for Indians”

Restitution is a particular problem in transitional economies, and indeed has been a thread running through all of European history since the end of World War II. The Canadian version of this problem lies in its incomplete dealings with the native peoples whose occupation preceded settlement by Europeans.³¹ The topic is a large one, and only the briefest summary is offered here. We include it because of the parallel with the problems of restitution following revolution and war in Russia, and because it might have some relevance to dealings with some of the non-European peoples of Siberia.

In the earliest days, French settlers appropriated the land they wanted for gardens and settlements, sometimes with the informal agreement of the local Indians, sometimes not. The concept of any person other than the King of France having ultimate ownership and sovereignty did not enter the thinking of the time. The English, who began appearing in Hudson’s Bay in the seventeenth century and along the eastern seaboard in the eighteenth, regarded the native peoples warily, in no small measure because there was rough military parity between them. Treaties of a sort began to characterize their relationships as early as 1725, when the French in the St. Lawrence basin were still powerful rivals. At the close of the Seven Years War, which saw the end of French sovereignty in Lower Canada, the British regularized their approach to dealing with the native peoples of all of British North America (a territory which, until 1776, included the thirteen colonies that later became the United States). The *Royal Proclamation* of 1763 made it an obligation of the colonial authorities to negotiate land rights in advance of the wave of agricultural settlement.

Thereafter, and especially in the latter half of the nineteenth century, treaty commissioners fanned out over Upper Canada and the western prairies making solemn agreements with groups of native bands. With the creation of the new Dominion of Canada in 1867, the obligation was devolved to the new national government in its founding *British North America Act*. The *BNA Act*, somewhat confusingly, assigned jurisdiction over “Indians and lands reserved for Indians” to the federal government but left other land and property matters to the provinces. Because the Indian concepts of land ownership were different from those of the commissioners, and because of the usual problems of communicating across formidable barriers of language and culture, the courts have in recent years begun to insist that the language of these treaties be given a “large and liberal construction,” as “the honour of the Crown is at stake.”

³¹ A former Deputy Prime Minister, Erik Nielsen, represented the Yukon for many years in the House of Commons. He tells the story of sitting quietly on a hilltop with an old Indian friend, gazing westward over the lakes and plateaus toward the great St. Elias Range in the far distance. After a long time he asked his friend, “What did you call this land before the white man came?” “Ours,” said the Indian.

The pre-1763 treaties in the Maritime provinces, harking back to the days of military parity, have the flavour of the contemporary European treaties of “friendship, navigation and commerce” with which it was usual to end wars and recommence peaceful trade. They were, in general, not land cession treaties. Whatever preceding land rights existed may yet be found by Canadian courts to persist. In the old French colonies along the St. Lawrence, it is generally accepted that aboriginal land rights were extinguished in the French regime, although some specific arrangements made by the English during the final struggle for control of Lower Canada were found by the courts to have pith and substance in the late twentieth century. The western treaties, stretching from Ontario to the Rocky Mountains, did contain explicit land language. Tribes agreed, however unwillingly or uncomprehendingly, to cede their rights to vast swaths of traditional territory in return for specific reserves plus small amounts of money and rudimentary health and educational systems. However, equally large tracts of Canada were left for a later day. British Columbia, which has an exceptionally rich and complex set of aboriginal cultures, resisted treaty-making until the late 1980s. The Yukon and the Northwest Territories – all the land north of 60° latitude – was uncovered, as was Québec north of the early French settlement area and all of Newfoundland and Labrador. The modern era of treaty-making commenced in the 1970s as resource development began to move into the frontier regions. Northern Québec and the Arctic territories were covered by treaties between 1975 and 1995, and negotiations are somewhat fitfully underway in British Columbia and Labrador.

Aboriginal (i.e., pre-treaty) land rights have been defined by the courts following their recognition in the *Royal Proclamation* of 1763 and in the *Constitution Act* of 1982, which are parts of the Canadian constitution. In general, these ancestral rights as defined by modern courts are usufructuary, heritable through the band or tribe rather than individually, relate to traditional uses and territories, and constitute a shadow on title unless formally extinguished through treaty with the Crown. This collective approach to definition ignores many examples of a more specific kind of “ownership,” such as the inherited traplines of the Cree or the clan-owned fishing stances of the peoples at the mouths of certain B.C. rivers, which were customarily “leased” to seasonal migrants from inland. Treaty rights are more like statute law: their meaning comes from their language, although a minor legal industry has grown up to expand those definitions. As the modern meaning of treaty language is often ambiguous and as the historic breaches of explicit promises by the invading settlers are numerous, much effort goes into resolving the “spirit and intent” of the treaties and into making restitution for subsequent lack of performance.

Land rights on the reserves set aside by treaty are governed by the *Indian Act* or by specific provisions of the Acts implementing the modern treaties. There are similarities with land rights on Russian collectives or kolkhoz. Formally, the federal government holds the land in trust for the band or tribe, granting rights of possession but not ownership to individuals or families. In

practice, these rights are often assigned by tribal governments and simply recorded by the Crown. Sale to non-Indians is prohibited, -- only a truncated, Indians-only market functions on reserve -- and because assets on reserve cannot be seized to fulfill unpaid debt, normal debt markets do not function. Land and related assets cannot be pledged to raise capital for new businesses, nor can they be a source of household wealth and security. Heritability and security of tenancy varies, and *de facto* rights are often not the same as *de jure* rights, owing to the government's increasing deference to tribal governments which may not operate according to modern legal or democratic norms. Taken together, these legally-imposed disabilities constitute a substantial impediment to economic development in communities who often have few resources other than their lands.

Annex 3.2. Public-private partnerships

A recent variant on the privatization of industrial or commercial enterprises that happen to be owned by governments is the delivery of government programs or objectives through contractual arrangements with the private sector. Consistent with the steering vs. rowing metaphor, and spurred by the fiscal pressure on governments in the 1980s and 1990s, a number of countries have experimented with public-private partnerships. While there have been one-off public-private partnerships in many countries, and a few countries have regularized the approach as a standard part of the way they do business, none compare with the fervor with which Britain, a late convert, has approached its Private Finance Initiative (PFI).

The modern approach began with a senior official in the UK government. Sir David Hancock, having spent 23 years in Her Majesty's Treasury, was appointed Permanent Secretary for Education and Science under the government of Prime Minister Thatcher. Under the centralized British system, Hancock was responsible for the whole of the educational infrastructure of the kingdom, from kindergarten through Cambridge. Yet no one understood better than a former Treasury official the limitations that the Public Sector Borrowing Requirement imposed on the necessary renewal of the fabric of British education. In the mid-1980s he put to paper the basic principles of what later became the PFI, but it found no echo in Downing Street. Hancock retired from the civil service in 1989 and became a director of Hambros Bank, one of the last of the old British merchant banks and an institution open to new ideas and aggressive invention of new financial products. He kept his notes. The historical moment arrived in the fall of 1992, when the new government of John Major and his Chancellor, Norman Lamont, was embarrassed by an exchange rate crisis. The government needed an announcement to counter the impression that it was a bad financial manager. The Chancellor, briefed on a promising new way of doing basic government business, immediately announced the Private Finance Initiative. Timing is all.

Hambros, realizing that the key to success was going to be an effective and committed cadre of civil servants, decided to work as advisors to the government for the first years of the new scheme, and in consequence advised the Highways Agency on the first seven DBFO (Design,

Build, Finance, Operate) highways to be built under the new arrangements. It was at Hancock's impetus that a Treasury task force of high-quality civil servants was assembled, with stellar external guidance from the City,³² to assist departments in getting value for money in the procurement of infrastructural services.

From these beginnings has sprung a remarkable new industry with strong export success built on a wide range of experience in the home market. Highways, railroads, ports, hospitals, prisons, airports, military housing and educational institutions have by now all been built or renewed through PPPs worth more than £13 billion. "Industry" is the correct word, in that in addition to many efficient and competitive engineer-procure-construct (EPC) and project operating companies, often associated in quasi-permanent consortia, there are now a large number of experienced financiers, lawyers, accountants, and other professionals. Throughout, the approach of the government has been to make its servants skilled buyers of these services, instead of offering assistance (beyond generally available programs) to domestic export champions.

In Canada, PPPs initially came about because of budgetary restraint. The federal government, for instance, had a constitutional obligation to keep Prince Edward Island continuously served by ferries from the mainland. Recovering the full cost from fares was not a politically realistic option, and the subsidy to the service had reached \$35 million a year by the mid-1980s and no end was seen to its growth. The government selected through competition a private consortium that would design, build, finance and operate a 22-mile long bridge over a concessionary period of 30 years, following which the bridge would revert to federal ownership. The federal contribution was to be its current expenditure, capped in nominal dollars. Within limits, the consortium could charge what it liked as a toll. The revenue-maximizing rate could not be too exorbitant, as one of the old ferries was to continue in operation.

Ontario used the PPP approach to build a new bypass road, Highway 407, around the northern edge of the Toronto metropolitan region. This massive project, costing \$1.6 billion to construct, was originally to be done on the UK DBFO principle. Bidders were asked to include a full financing proposal. The provincial government sponsor had second thoughts on the financing side, however, and concluded that the lowered costs of government borrowing more than offset the demand risks it would be taking on. In the end, the winning consortium got a DBO contract only. Five years later, with the new highway proving a popular asset and exceeding the demand estimates on which the original toll and financing calculations were based, the province decided to divest itself of financial responsibility. A second great contest was arranged, the winner of which was to take out the provincial debt, extend the road, and pay a further sum for the concession. In the event, the province was paid \$3.1 billion for a \$1.6 billion debt, a remarkable gift from the (social

³² Sir Alastair Morton, the veteran co-chairman of Eurotunnel, was asked by Lamont's successor as Chancellor, Kenneth Clarke, to establish and chair the Government's Private Finance Panel to promote PPPs. His salty views (Morton 1998) on early days and early projects are well worth reading.

democratic) administration that began the project to the (conservative) government that reaped the results of refinancing.

Canada, like most Western countries, now has both the industrial and financial intermediation capacity to undertake very large PPPs. They are particularly apt when what is required is a service from an expensive (typically >\$250 million) piece of infrastructure, for which a price can be charged, directly or indirectly, performance standards or service quality parameters can be reasonably described, there is keen competition to provide the service, and the risks of the project are susceptible to partitioning between the public and private sectors.

The air navigation system has been described above as a straightforward privatization, but it could equally have been structured as a PPP. An efficient outcome would have required that the tender be open to international bidders, however, and that was a political price the government was unwilling to bear. In Canada, many of the most attractive potential PPPs are at regional, provincial or municipal level, since these levels of government provide most of the nation's infrastructure. The water sector has been particularly active recently, with large projects let out for competitive DBFO concessions in Ontario, Nova Scotia and British Columbia.

The largest projects undertaken in Canada under the PPP banner are the 13-km bridge from New Brunswick to Prince Edward Island, and the construction and subsequent re-financing of Highway 407, a \$3.1 billion bypass road around the northern edge of the Toronto metropolitan area. These and others are described in SG Hambros (1999)

As noted, PPPs are a form of alternative service delivery for what are normally thought of as public goods, rather than commercial enterprises in the first instance. Structurally, however, they are close kin to pure privatization, the difference being that in the latter case the government has no further public policy interest in the performance of the firm. PPPs allow for the off-balance-sheet financing and competitive delivery of services for which government has a residual responsibility – but can be content with steering rather than rowing. There is now a substantial literature, built on wide international experience, on how to do PPPs well, and most investment banks and many management consulting companies are pleased to earn fees from sponsors or bidders.

Annex 3.3 Some lessons for Russia¹⁴

Similar to other developed economies, the emergence of public sector in the Canadian economy is related, first, to evident market failures that manifested themselves during the Great Depression (1929-33) and, secondly, to the successful economy mobilization during the World War II (1939-45). They had determined public consensus on nationalization of a number of

infrastructure sectors and the sector for social services. Finally, the emergence of the Canadian public sector is related to the need in preventing the negative effects of shutdown and bankruptcies of large industrial enterprises whose owners failed to ensure their profitability.

Despite the fact that the first attempts of privatization emerged in Canada yet in early '70s, the privatization process in the country was preceded by serious changes in the political situation that took place in the frame of the overall shift towards conservatism that arose in the West in early '80s. As far as privatization 'technicalities' are concerned, the experience of the last two decades of privatization in the country may be found useful in light of modification of the Russian privatization policy.

First, considering specifics of a certain industry, the Canadians selected methods of transformation of ownership form, providing the prevalence of direct sales based on negotiations, auctions, and public placement of shares on the securities market.

Secondly, a realistic principal objective of privatization was postulated: that is, a considerable enhancement of market agents' economic efficiency. The sources for such a progress were recognized lying in the area of labor factor (the employment of a smaller number of qualified personnel whose motivation is higher, due to an adequate labor compensation), as well as those in the management area. The latter implies new incentives for managers to employ new technologies, to introduce marketing practices and to employ a greater flexibility while responding to changing external challenges.

Thirdly, the Canadian experience declares the importance of attracting the best consultants to develop privatization procedures that can substitute for investment banks and lawyers.

In the fourth place, the need in maintaining confidence in the privatization strategy selected and the concern about the scenario under which individuals with dubious interests may acquire control over a privatized company have determined the Canadian authorities favoring pursuance of certain control procedures in the course of privatization, to counterbalance the effects generated by the securities market.

In the fifth place, to ensure successful privatization, the authorities had to develop incentives for investors - future shareholders and to carry out a certain pre-privatization preparation of enterprises intended for privatization. This conclusion needs to be elaborated in a greater detail.

A successful privatization process requires the respective political back-up, including political will at the highest level of authority to implement a certain decision and clarity and transparency that proceed from the enacted laws, and stability of the general political situation and a strict compliance with the elaborated and the government's declared stand for the future. The government's stand for the future is especially important to the pre-privatization preparation of enterprises that includes formulation of requirements to future owners. This specifically concerns

¹⁴ The comments to Chapter 3 were developed by G. Malginov, IET

the companies operating in the sector for infrastructure and public services delivery, of which a strong interrelation between the post-privatization conditions of their operations and the government policy towards the public sector as a whole is characteristic.

The development of the respective motivation for all the participants in privatization transactions suggests solution of both the transparency procedures *per se* and the ensuring of the information disclosure principle that are of a critical importance to the financial market, and the ensuring of a certain social fairness. That concerns, primarily, the consistency with the earlier concluded agreements in the social and labor area (contracts, existence of trade-unions) with the personnel, which is to remain with the company after its privatization, as well as requires a certain generosity (large benefits and early pensions) to those who may lose their jobs in the course of the consequent company restructuring.

The interpretation of the aforementioned conclusions in the current Russian realities unquestionably differs substantially from the genuine Canadian practices.

In Russia, the achievement of a considerable enhancement of economic agents' economic efficiency upon their privatization is far from being evident. There are several reasons for that: the specifics of the Russian privatization process in early '90s (a giant role played by managers, prevalence of "insiders" in the primary post-privatization ownership structure, due to the respective privileges) has led to many privatized companies' failure to get a new efficient owner. The consequent capital redistribution took a lot of time, which encouraged the continuous degradation of enterprises' production capacity and decreased their weakness in terms of adjustment to new conditions. Furthermore, the 1997-98 financial crisis has proved the genuine concerns about the ability of the Russian commercial banks (along with a number of other categories of 'outsiders'), lacking both financial capacity and managerial skills, to efficiently exercise the corporate control and strategic ownership of shares. In many cases, such shareholders have proved to be incapable to ensure an efficient restructuring of the acquired enterprises of the real sector and to bear the costs related to the control over them.

The current structure of the national economy also poses an obstacle to the increase in economic efficiency in the post-privatization period. The transformational decline experienced by the Russian economy over the '90s primarily battered the processing sector. The "primitivization" of the production structure, along with the shift towards the mineral output, has caused Dutch disease. The potential room for managers' innovations has become narrowed, while the effect of the labor market mechanisms has proved to be yet more imperfect (latent unemployment, the limited mobility of labor force).

Similar to the Canadian practice, the privatization strategy pursued by the Russian government implied the authorities holding certain control instruments over the situation at the privatized enterprises, although the devices (fixing of stakes, issuance of the "Gold Share",

restrictions in terms of the composition of participants in privatization deals, putting forward investment and social conditions in the course of the change of ownership) differed considerably from the Canadian ones.

However the government control instruments over the privatization process were not in conjunction with other directions of the government economic policy (anti-trust, social, and industrial policies). It is only now that the RF government began to elaborate the ways to restructure natural monopolies and to tackle the problem of adequate social policy. The authorities also undertook the first sound steps on the way to improve their control over public property and the respective raising of budget non-tax revenues.

Russia's experience fully proves the conclusion of the necessity of political support to the privatization process. At the same time we regret to argue that the practical apprehension of this solution based on the Western experience was reduced to a mere understanding of the arbitrary employment of the factor of political will at the high level of authority, without backing that up with a detailed and ambivalent law and ensuring transparency of the respective transactions. In the Russian conditions of the '90s (a weak judiciary system, informal ties between single government authorities and businesses, unjustified preferences granted to certain structures compared with the others, elements of corruption and crime), that has led to highly negative results.

Thanks to the tangle between the government authorities and businesses, the rent-oriented behavior characteristic of managers of single enterprises in many cases has outspread over groups of companies and the whole sectors of the economy. The intense conflicts of interests between various bureaucratic structures within the government system, large financial structures, top management and their lobbying of their interests camouflaged under structural and legal restructuring made direct sales based upon negotiations and auctions (that were the main privatization methods in Canada) ineffective.

The instability and the loose development of the Russian stock market, which is attributed to "emerging markets", have determined the impossibility of the implementation of a wide-scale privatization through public placement of shares on the securities market. Such a background extremely complicates the implementation of the pre-privatization preparation of enterprises and selection of financial consultants within the country. The chances to attract foreign consultants were originally constrained by Russia's small financial capacity and, in many cases, the former lacking expertise of the Russian specifics. The existence of rather a perfect corporate law found itself in conflict with the information disclosure problem, and in many cases the information was made unavailable for potential investors. The bankruptcy procedures tended to be used mostly against owners rather than managers, which became especially notable at the stage of the monetary privatization of 1995- 2000, when the suppressed inflation and the growing stock market created relatively good prospects for the economic growth renewal.

At the first sight, the Russian privatization has not faced any serious counteraction on the part of employees of the enterprises concerned and trade-unions, thus it would not require an implementation of costly social programs. In reality, however, the need in arranging compromise between the government and the parliament and various social groups in 1992, at the stage of mass privatization, forced the government to introduce a huge system of privileges for employees at privatized enterprises (including their managers singled out as a special category). Initially, such a scheme in many cases led to the emergence of the situation of 'informal contract' between managers of the privatized enterprises and their employees, providing that underlying such a 'contract' there was the 'closeness of capital and *status-quo* for managers in exchange for maintenance of jobs and some social benefits at the enterprise' principle.

Then, however, in the course of the continuous production decline, the formal nature of such an employment was becoming increasingly evident, and the positions of the staff at such enterprises were increasingly deteriorating. The managers at newly privatized enterprises proved to be absolutely uncontrolled, while the new owners that appeared at the enterprises after capital redistribution were holding no obligations, both formalized (as it would have happened in the case of the government sales of its assets) and informal (within the framework of the labor collective) alike. In the context of the government's permanent failure to fulfill its social obligations due to the budget crisis, such a situation created a very specific social tension, which at the same time became incorporated into the overall social instability characteristic of the post-reform Russia. It is not hard to understand that the latter differed substantially from the traditional contradictions within 'trade-unions-capital-government' triangle inherent of the developed market economies.

All the above, of course, does not mean that the aforementioned conclusions arising from the Canadian privatization experience are not attributable to Russia, - on the contrary, their adequate borrowing may seriously help reform the ownership relations in the Russian transitional economy. However that necessitates improvement of the current law, cutting off the influence of narrow corporate (private and/or/ departmental) interests through the consistent following the spirit and letter of the law, establishment of the transparent and strict control and responsibility mechanism, and protection of the law from the criminal and lobbyist efforts. The current favorable political conditions and the practice over the last two years clearly show the chances for positive changes in this respect. Due to a huge size of Russia's public sector, the positive effect of privatization is fairly important to public companies of similar profile in terms of improvement of the quality of their operations.

Annex to Chapter 5

Annex A.5.1. Genuine information used for calculations

A.5.1.1. Information on the industrial sector privatization indices

The Annex comprises the data on the industrial sector privatization indices.

- The share of enterprises of the non- governmental sector in the overall number of industrial enterprises (E1);

The present index implies the proportion of **all the industrial enterprises that are not owned** by the Russian Federation (federal property), its Subjects (sub-federal property, urban, rural settlements and other municipal entities (municipal property), and it comprises industrial enterprises of private, mixed ownership and those owned by public associations.

- The share of output produced by non-government enterprises in the overall volume of industrial output in the given region (P2);

This indicator means the share of industrial output produced at **all the industrial enterprises that are not owned** by the Russian Federation (federal property), its Subjects (sub-federal property, urban, rural settlements and other municipal entities (municipal property), and it comprises industrial enterprises of private, mixed ownership and those owned by public associations.

- The share of employees at non-government enterprises in the overall number of employees in the industrial sector (E);

This indicator shows the number of employees at all the industrial enterprises that are not owned by the Russian Federation (federal property), its Subjects (sub-federal property, urban, rural settlements and other municipal entities (municipal property), and it comprises industrial enterprises of private, mixed ownership and those owned by public associations.

Sources: *Economicheskoye polozhenye regionov Rossiiskoy Federatsii*. Moscow, Goskomstat Rossii, p. 63-66.

Sravnitelnye pokazateli ekonomicheskogo polozhenia regionov Rossiyskoy Federatsii. Moscow, Goskomstat Rossii, 1994, p. 74-78;

Regiony Rossii: Stat. Sb. in two volumes. ol.2/ Goskomstat Rossii.-Moscow, 1997, p. 196-198.

Regiony Rossii: Stat. Sb. in two volumes. ol.2/ Goskomstat Rossii.-Moscow, 1998, p. 336-337.

Regiony Rossii: Stat. Sb. in two volumes. ol.2/ Goskomstat Rossii.-Moscow, 1999, p. 196-198.

| Region | 1993 | | | 1994 | | | 1995 | | | 1997 | | | 1998 | | |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E |
| Republic of Karelia | 59,6 | 71,8 | 70,0 | 83,0 | 86,8 | 82,2 | 90,9 | 93,6 | 90,6 | 89,6 | 94,8 | 94,7 | 91,0 | 96,0 | 92,0 |
| Republic of Komi | 58,2 | 60,2 | 51,9 | 69,0 | 78,6 | 71,2 | 79,9 | 78,1 | 69,1 | 81,6 | 83,2 | 89,6 | 80,0 | 96,0 | 88,0 |
| Arkhangel'sk Oblast | 79,8 | 75,8 | 59,8 | 80,0 | 80,0 | 60,8 | 89,9 | 86,9 | 66,4 | 88,5 | 80,2 | 63,1 | 87,0 | 77,0 | 61,0 |
| Vologda Oblast | 91,8 | 84,5 | 80,1 | 89,0 | 97,1 | 95,0 | 89,5 | 97,0 | 94,3 | 90,4 | 96,7 | 94,4 | 92,0 | 96,0 | 94,0 |
| Murmansk Oblast | 70,3 | 54,7 | 66,2 | 85,0 | 86,7 | 83,8 | 91,1 | 88,3 | 85,4 | 86,5 | 86,3 | 87,5 | 90,0 | 87,0 | 78,0 |
| S-Petersburg | 87,9 | 59,6 | 46,8 | 94,0 | 81,2 | 64,2 | 98,9 | 90,2 | 79,7 | 99,4 | 92,8 | 87,4 | 99,0 | 91,0 | 87,0 |
| Leningrad Oblast | 47,1 | 20,2 | 38,6 | 91,0 | 81,1 | 81,8 | 95,7 | 86,3 | 84,1 | 98,7 | 79,9 | 88,1 | 97,0 | 80,0 | 86,0 |
| Novgorod Oblast | 74,6 | 63,9 | 53,5 | 83,0 | 84,3 | 74,5 | 87,9 | 90,3 | 80,1 | 92,0 | 88,8 | 83,9 | 91,0 | 91,0 | 85,0 |
| Pskov Oblast | 84,6 | 80,3 | 72,9 | 83,0 | 90,1 | 83,1 | 86,4 | 93,2 | 92,4 | 87,4 | 93,5 | 93,0 | 86,8 | 92,1 | 90,9 |
| Bryansk Oblast | 90,7 | 86,9 | 77,9 | 83,0 | 85,7 | 79,4 | 92,4 | 88,8 | 84,8 | 89,8 | 92,7 | 89,9 | 91,4 | 93,8 | 89,3 |
| Vladimir Oblast | 83,1 | 89,5 | 81,9 | 85,0 | 90,0 | 86,4 | 93,0 | 91,0 | 89,1 | 94,8 | 88,6 | 88,8 | 94,2 | 85,0 | 87,2 |
| Ivanovo Oblast | 69,3 | 88,5 | 85,6 | 79,0 | 86,5 | 88,8 | 86,1 | 91,7 | 91,9 | 93,2 | 90,5 | 92,9 | 93,4 | 84,5 | 90,9 |
| Kaluga Oblast | 83,7 | 37,9 | 39,0 | 85,0 | 74,3 | 78,4 | 88,3 | 77,3 | 80,3 | 97,4 | 84,6 | 85,4 | 93,1 | 84,2 | 83,5 |
| Kostroma Oblast | 83,6 | 82,9 | 70,6 | 82,0 | 91,2 | 83,6 | 87,6 | 92,3 | 86,3 | 88,0 | 92,7 | 88,9 | 89,8 | 93,1 | 85,9 |
| City of Moscow | 94,4 | 58,0 | 55,5 | 94,0 | 63,2 | 61,7 | 96,2 | 77,6 | 69,6 | 98,8 | 90,8 | 81,6 | 98,5 | 85,9 | 80,7 |
| Moscow Oblast | 84,2 | 26,4 | 27,5 | 81,0 | 34,3 | 37,8 | 91,0 | 72,3 | 71,5 | 96,9 | 77,0 | 74,1 | 97,2 | 92,1 | 85,3 |

| Region | 1993 | | | 1994 | | | 1995 | | | 1997 | | | 1998 | | |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E |
| Orel Oblast | 85,4 | 36,9 | 40,4 | 89,0 | 91,9 | 91,1 | 89,5 | 93,2 | 92,1 | 94,7 | 93,0 | 93,4 | 93,5 | 92,0 | 91,8 |
| Ryazan Oblast | 72,9 | 88,6 | 64,9 | 86,0 | 62,8 | 70,6 | 91,4 | 92,6 | 78,7 | 94,3 | 93,9 | 84,1 | 94,6 | 88,9 | 83,9 |
| Smolensk Oblast | 84,9 | 32,2 | 35,5 | 88,0 | 60,9 | 80,9 | 94,8 | 66,3 | 81,3 | 93,9 | 64,0 | 79,7 | 94,1 | 61,1 | 77,5 |
| Tver Oblast | 79,4 | 72,9 | 70,8 | 86,0 | 80,0 | 83,4 | 90,5 | 83,1 | 84,8 | 90,7 | 79,8 | 88,2 | 88,2 | 82,0 | 85,1 |
| Tula Oblast | 83,8 | 69,2 | 53,0 | 88,0 | 91,6 | 83,7 | 93,9 | 94,5 | 89,0 | 96,7 | 97,1 | 92,8 | 95,8 | 96,9 | 92,0 |
| Yaroslavl Oblast | 85,8 | 52,4 | 61,4 | 90,0 | 93,0 | 88,7 | 93,5 | 93,0 | 91,8 | 94,0 | 94,1 | 93,8 | 95,1 | 93,5 | 92,0 |
| Republic of Mary-El | 70,1 | 55,7 | 51,3 | 83,0 | 75,1 | 72,6 | 87,2 | 77,6 | 67,5 | 91,4 | 77,6 | 67,9 | 90,9 | 76,9 | 69,2 |
| Republic of Mordovia | 64,5 | 2,8 | 5,5 | 29,0 | 6,8 | 73,5 | 78,9 | 89,0 | 84,5 | 81,9 | 88,2 | 85,2 | 79,3 | 86,7 | 79,2 |
| Chuvash Republic | 79,2 | 7,0 | 12,7 | 84,0 | 82,4 | 88,7 | 86,5 | 84,2 | 85,1 | 89,4 | 82,5 | 85,0 | 89,3 | 81,5 | 82,6 |
| Kirov Oblast | 76,1 | 57,6 | 42,6 | 81,0 | 89,8 | 90,6 | 84,1 | 90,4 | 81,3 | 86,7 | 89,5 | 81,9 | 87,9 | 91,6 | 81,9 |
| Nizhny Novgorod Oblast | 59,3 | 64,3 | 61,9 | 84,0 | 81,1 | 86,0 | 89,9 | 93,4 | 85,7 | 98,7 | 96,0 | 93,3 | 95,5 | 96,0 | 91,6 |
| Belgorod Oblast | 90,2 | 95,0 | 89,3 | 91,0 | 98,3 | 96,0 | 93,3 | 98,4 | 96,8 | 95,9 | 98,6 | 97,9 | 96,9 | 98,9 | 95,9 |
| Voronezh Oblast | 82,7 | 38,2 | 31,6 | 94,0 | 87,6 | 88,1 | 95,9 | 86,7 | 88,3 | 96,8 | 81,4 | 87,2 | 96,3 | 82,4 | 84,6 |
| Kursk Oblast | 83,7 | 72,0 | 74,7 | 77,0 | 74,9 | 82,7 | 87,4 | 82,4 | 87,4 | 89,6 | 73,3 | 85,9 | 87,7 | 75,5 | 85,3 |
| Lipetsk Oblast | 86,3 | 95,7 | 88,3 | 85,0 | 97,6 | 94,7 | 87,9 | 97,8 | 95,6 | 94,1 | 95,4 | 94,2 | 93,4 | 94,9 | 92,5 |
| Tambov Oblast | 81,0 | 64,1 | 55,0 | 85,0 | 82,5 | 78,5 | 87,3 | 82,7 | 79,6 | 92,5 | 82,0 | 83,6 | 89,2 | 83,8 | 80,8 |
| Republic of Kalmykia | 38,0 | 6,8 | 16,0 | 39,0 | 10,9 | 20,6 | 62,6 | 50,5 | 47,6 | 74,4 | 69,9 | 81,1 | 75,4 | 67,4 | 68,2 |
| Republic of Tatarstan | 85,7 | 41,4 | 43,5 | 78,0 | 72,0 | 61,4 | 87,4 | 75,9 | 66,2 | 89,5 | 79,5 | 75,5 | 86,3 | 66,0 | 73,4 |
| Astrakhan Oblast | 85,0 | 69,5 | 68,4 | 89,0 | 69,0 | 83,8 | 94,5 | 90,8 | 89,4 | 95,2 | 92,5 | 92,7 | 93,9 | 93,3 | 87,6 |
| Volgograd Oblast | 84,6 | 58,6 | 67,1 | 92,0 | 92,7 | 87,2 | 97,6 | 95,6 | 91,5 | 94,5 | 95,6 | 92,7 | 93,4 | 95,8 | 91,0 |
| Penza Oblast | 72,5 | 17,3 | 21,7 | 87,0 | 74,8 | 65,4 | 90,1 | 81,9 | 71,7 | 91,9 | 81,8 | 75,4 | 92,1 | 78,7 | 73,0 |
| Samara Oblast | 78,4 | 59,1 | 61,7 | 93,0 | 92,9 | 81,8 | 96,4 | 97,4 | 89,2 | 98,0 | 96,8 | 91,8 | 98,0 | 96,7 | 91,4 |
| Saratov Oblast | 41,0 | 30,1 | 34,8 | 90,0 | 78,9 | 74,5 | 93,9 | 84,2 | 82,8 | 93,3 | 79,5 | 82,5 | 93,4 | 80,5 | 80,9 |
| Ulyanovsk Oblast | 71,7 | 5,7 | 10,8 | 66,0 | 12,5 | 17,8 | 80,2 | 86,8 | 80,5 | 88,2 | 88,5 | 84,2 | 85,3 | 91,2 | 83,4 |
| Republic of Adygea | 63,6 | 11,9 | 21,0 | 93,0 | 73,5 | 85,4 | 93,5 | 88,6 | 87,4 | 96,6 | 85,6 | 95,6 | 96,3 | 85,7 | 88,0 |
| Republic of Dagestan | 37,7 | 12,7 | 17,3 | 51,0 | 17,1 | 21,0 | 94,4 | 73,4 | 62,8 | 96,6 | 84,0 | 77,7 | 75,4 | 78,3 | 68,1 |
| Republic of Ingushetia | | | | | | | 92,6 | 42,7 | 68,8 | 94,1 | 16,0 | 42,0 | 77,3 | 15,4 | 14,0 |
| Kabardino-Balkarskaya Republic | 68,0 | 46,2 | 38,0 | 85,0 | 86,8 | 83,5 | 86,6 | 86,6 | 83,9 | 92,6 | 77,2 | 83,0 | 91,2 | 80,1 | 81,4 |
| Karachaevo-Cherkessia Republic | 75,2 | 64,8 | 69,2 | 95,0 | 91,9 | 91,2 | 96,7 | 97,8 | 95,4 | 97,1 | 97,3 | 97,1 | 97,8 | 97,2 | 95,0 |
| Republic of North-Ossetia-Alania | 51,2 | 39,0 | 27,3 | 60,0 | 57,7 | 52,7 | 63,9 | 61,1 | 56,7 | 79,0 | 74,2 | 59,3 | 83,1 | 71,8 | 56,1 |
| Krasnodar Krai | 50,8 | 50,6 | 57,0 | 93,0 | 80,2 | 73,1 | 96,2 | 95,0 | 88,1 | 96,7 | 93,7 | 89,1 | 96,2 | 92,8 | 87,3 |
| Stavropol Krai | 94,6 | 68,1 | 76,6 | 95,0 | 96,3 | 92,7 | 95,1 | 97,2 | 93,0 | 97,8 | 95,3 | 95,3 | 97,5 | 95,2 | 92,0 |
| Rostov Oblast | 82,8 | 57,1 | 45,1 | 90,0 | 77,2 | 75,7 | 96,3 | 84,5 | 82,4 | 99,2 | 91,6 | 91,5 | 98,3 | 90,0 | 89,9 |
| Republic of Bashkortostan | 73,9 | 59,1 | 44,1 | 81,0 | 74,6 | 59,5 | 85,8 | 89,3 | 75,2 | 84,9 | 88,6 | 81,1 | 85,6 | 85,6 | 75,3 |
| Undmurt Republic | 86,0 | 31,0 | 38,3 | 84,0 | 71,8 | 65,5 | 89,5 | 79,7 | 72,4 | 94,9 | 80,9 | 79,1 | 94,3 | 77,0 | 75,3 |
| Kurgan Oblast | 84,6 | 90,7 | 81,3 | 85,0 | 92,8 | 85,6 | 87,0 | 94,6 | 87,8 | 88,4 | 93,6 | 89,5 | 91,0 | 90,2 | 88,2 |
| Orenburg Oblast | 83,5 | 57,2 | 68,4 | 86,0 | 96,0 | 86,4 | 91,8 | 96,8 | 89,1 | 94,4 | 96,5 | 91,5 | 93,9 | 79,6 | 85,8 |
| Perm Oblast | 48,0 | 87,0 | 75,9 | 86,0 | 90,5 | 85,9 | 92,9 | 91,7 | 88,0 | 96,6 | 91,7 | 88,0 | 95,5 | 92,2 | 88,3 |
| Sverdlovsk Oblast | 72,5 | 60,9 | 54,0 | 88,0 | 83,2 | 76,4 | 92,5 | 87,8 | 79,9 | 97,2 | 85,3 | 79,9 | 94,6 | 82,9 | 77,4 |
| Chelyabinsk Oblast | 86,0 | 74,2 | 61,6 | 89,0 | 89,1 | 79,0 | 93,5 | 92,3 | 82,8 | 95,1 | 92,1 | 85,1 | 96,1 | 92,1 | 83,8 |
| Altay Republic | 73,5 | 67,6 | 72,7 | 90,0 | 64,1 | 89,3 | 94,6 | 62,1 | 74,6 | 95,9 | 53,7 | 70,2 | 94,4 | 52,5 | 71,6 |
| Altay Krai | 75,3 | 39,8 | 36,4 | 88,0 | 84,3 | 78,5 | 93,4 | 77,5 | 84,5 | 94,9 | 86,3 | 91,1 | 95,4 | 85,9 | 88,2 |
| Kemerovo Oblast | 54,2 | 56,4 | 41,7 | 84,0 | 77,1 | 66,0 | 91,7 | 96,0 | 90,6 | 95,3 | 96,9 | 94,7 | 93,6 | 97,1 | 94,2 |
| Novosibirsk Oblast | 82,0 | 34,9 | 34,4 | 89,0 | 44,9 | 49,4 | 93,3 | 82,3 | 72,5 | 95,6 | 84,2 | 71,9 | 95,7 | 83,5 | 72,5 |
| Omsk Oblast | 85,8 | 87,1 | 56,0 | 90,0 | 91,2 | 68,6 | 92,1 | 93,0 | 71,6 | 92,7 | 91,9 | 74,6 | 93,7 | 87,9 | 74,6 |
| Tomsk Oblast | 71,2 | 72,0 | 59,4 | 80,0 | 79,9 | 65,1 | 82,2 | 85,0 | 69,8 | 93,9 | 76,1 | 73,0 | 91,9 | 66,5 | 69,8 |
| Tymen Oblast | 55,9 | 40,5 | 41,9 | 76,0 | 84,3 | 76,3 | 88,0 | 99,1 | 94,0 | 95,1 | 98,9 | 98,1 | 93,3 | 98,7 | 94,4 |
| Republic of Buryatia | 78,6 | 40,4 | 44,0 | 87,0 | 79,8 | 77,1 | 88,8 | 76,8 | 85,3 | 97,3 | 92,8 | 79,5 | 97,3 | 91,3 | 88,4 |
| Republic of Tyva | 32,4 | 41,2 | 28,9 | 63,0 | 70,4 | 58,7 | 77,6 | 73,0 | 63,1 | 83,6 | 65,7 | 65,9 | 69,2 | 63,1 | 57,9 |
| Republic of Khakassia | 72,4 | 74,8 | 68,6 | 93,0 | 95,2 | 91,5 | 94,0 | 93,6 | 91,6 | 93,8 | 92,5 | 96,5 | 91,8 | 94,0 | 93,9 |
| Kransoyarsk Krai | 33,5 | 3,9 | 11,2 | 76,0 | 54,3 | 27,4 | 81,0 | 91,8 | 82,9 | 95,5 | 91,5 | 87,1 | 95,5 | 92,1 | 86,7 |
| Irkutsk Oblast | 79,1 | 88,3 | 74,5 | 85,0 | 90,5 | 81,5 | 90,0 | 95,0 | 88,5 | 95,8 | 92,4 | 92,5 | 95,0 | 92,2 | 89,4 |
| Chita Oblast | 83,9 | 74,0 | 60,7 | 83,0 | 89,5 | 87,0 | 88,3 | 92,1 | 92,2 | 92,5 | 90,1 | 97,5 | 91,3 | 91,5 | 88,4 |
| Republic of Sakha (Yakutia) | 29,7 | 58,1 | 31,8 | 63,0 | 77,5 | 68,1 | 67,3 | 78,9 | 70,7 | 83,5 | 79,7 | 77,1 | 83,7 | 85,2 | 76,1 |

| Region | 1993 | | | 1994 | | | 1995 | | | 1997 | | | 1998 | | |
|--------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E | E1 | P2 | E |
| Jewish AO | 65,6 | 85,4 | 79,9 | 87,0 | 79,8 | 84,0 | 87,6 | 81,1 | 85,6 | 90,8 | 85,4 | 95,3 | 87,6 | 84,3 | 91,2 |
| Chukotka AO | 22,7 | 56,6 | 42,8 | 48,0 | 21,8 | 25,8 | 69,8 | 26,9 | 29,8 | 85,5 | 39,0 | 91,4 | 86,6 | 39,4 | 33,9 |
| Primorsky Krai | 74,4 | 22,8 | 20,8 | 84,0 | 79,1 | 71,2 | 94,3 | 91,0 | 89,9 | 95,4 | 90,7 | 92,9 | 94,6 | 92,8 | 81,9 |
| Khabarovsk Krai | 56,7 | 12,5 | 21,8 | 87,0 | 90,1 | 71,5 | 86,3 | 86,2 | 78,0 | 97,1 | 90,1 | 79,6 | 94,9 | 67,2 | 74,8 |
| Amur Oblast | 69,6 | 19,1 | 26,3 | 65,0 | 77,3 | 57,7 | 87,8 | 83,9 | 83,1 | 94,1 | 85,4 | 92,4 | 94,0 | 88,9 | 83,7 |
| Kamchatka Oblast | 59,1 | 73,0 | 60,8 | 83,0 | 83,5 | 79,0 | 92,4 | 85,8 | 80,8 | 94,9 | 82,2 | 85,0 | 94,8 | 86,1 | 79,9 |
| Magadan Oblast | 57,1 | 42,7 | 42,2 | 89,0 | 83,9 | 79,2 | 91,7 | 82,6 | 82,5 | 92,7 | 83,5 | 81,5 | 93,5 | 87,3 | 82,8 |
| Sakhalin Oblast | 84,7 | 75,0 | 71,5 | 75,0 | 68,1 | 58,2 | 94,0 | 86,3 | 91,8 | 96,0 | 96,2 | 96,5 | 97,0 | 97,1 | 94,3 |
| Kaliningrad Oblast | 78,8 | 16,2 | 19,8 | 90,0 | 96,7 | 88,4 | 92,2 | 93,5 | 88,3 | 97,4 | 95,4 | 91,5 | 96,8 | 93,6 | 82,2 |

A.5.1.2. Information on the non-government housing fund.

The Annex contains the data on the proportion of the non-government housing fund in the overall housing fund in the given region.

The said indicator means the proportion of **the overall housing fund not owned** by the Russian Federation (federal departmental fund), its Subjects (the departmental funds of Republics, Krai, Oblasts, city of Moscow and city of St. Petersburg that are independent Subjects of RF), municipalities (owned by a city, rayon, as well as the housing fund fully economically managed by municipal enterprises and under operative management of municipal institutions), and it contains the housing fund of private (owned by private individuals or legal entities established as private owners), mixed (owned jointly or in shares by various subjects of private, public, municipal ownership and of public associations' ownership) forms of ownership.

Sources: Sotsialnoye polozheniye regionov Rossiiskoy Federatsii. Moscow, Goskomstat Rossii, p. 317-18.

Sravnitelnye pokazateli ekonomicheskogo polozheniya regionov Rossiiskoy Federatsii. Moscow, Goskomstat Rossii, 1994, p. 74-78;

Regiony Rossii: Stat. Sb. in two volumes. Vol 1./ Goskomstat Rossii.-Moscow, 1997, p. 583-85.

Regiony Rossii: Stat. Sb. in two volumes. ol.2/ Goskomstat Rossii.-Moscow, 1998, p. 152-153.

Regiony Rossii: Stat. Sb. in two volumes. ol.2/ Goskomstat Rossii.-Moscow, 1999, p.154-155.

| Region | 1993 | 1995 | 1997 | 1998 |
|---------------------|------|------|------|------|
| Republic of Karelia | 39 | 37 | 40 | 40 |
| Republic of Komi | 36 | 37 | 42 | 41 |
| Arkhangel'sk Oblast | 51 | 55 | 49 | 49 |
| Nenetsky AO | | 47 | 49 | 54 |
| Vologda Oblast | 67 | 59 | 59 | 59 |
| Murmansk Oblast | 30 | 46 | 47 | 45 |
| S-Petersburg | 23 | 37 | 42 | 45 |
| Leningrad Oblast | 35 | 32 | 10 | 32 |
| Novgorod Oblast | 54 | 59 | 61 | 61 |
| Pskov Oblast | 67 | 68 | 70 | 71 |
| Bryansk Oblast | 75 | 75 | 75 | 76 |
| Vladimir Oblast | 72 | 70 | 64 | 66 |
| Ivanovo Oblast | 70,5 | 71 | 71 | 67 |
| Kaluga Oblast | 62,5 | 63 | 63 | 62 |
| Kostroma Oblast | 61 | 66 | 69 | 69 |
| City of Moscow | 34,1 | 44 | 49 | 51 |
| Moscow Oblast | 45 | 44 | 47 | 48 |
| Orel Oblast | 64 | 68 | 77 | 76 |
| Ryazan Oblast | 65 | 69 | 71 | 71 |
| Smolensk Oblast | 67 | 69 | 71 | 72 |
| Tver Oblast | 66 | 65 | 69 | 67 |
| Tula Oblast | 64 | 68 | 67 | 65 |

| Region | 1993 | 1995 | 1997 | 1998 |
|----------------------------------|------|------|------|------|
| Yaroslavl Oblast | 64 | 70 | 64 | 60 |
| Republic of Mary-El | 61 | 62 | 62 | 65 |
| Republic of Mordovia | 58 | 64 | 63 | 64 |
| Chuvash Republic | 53 | 58 | 61 | 62 |
| Kirov Oblast | 65 | 70 | 70 | 68 |
| Nizhny Novgorod Oblast | 64 | 69 | 71 | 68 |
| Belgorod Oblast | 80 | 77 | 71 | 71 |
| Voronezh Oblast | 75 | 77 | 77 | 80 |
| Kursk Oblast | 76 | 77 | 79 | 79 |
| Lipetsk Oblast | 79 | 66 | 78 | 73 |
| Tambov Oblast | 76 | 75 | 77 | 75 |
| Republic of Kalmykia | 52 | 58 | 63 | 79 |
| Republic of Tatarstan | 39 | 59 | 70 | 71 |
| Astrakhan Oblast | 54 | 66 | 68 | 70 |
| Volgograd Oblast | 62 | 68 | 67 | 71 |
| Penza Oblast | 73 | 74 | 74 | 75 |
| Samara Oblast | 60 | 56 | 54 | 54 |
| Saratov Oblast | 39 | 65 | 63 | 65 |
| Ulyanovsk Oblast | 53 | 58 | 62 | 63 |
| Republic of Adygea | 71 | 75 | 75 | 76 |
| Republic of Dagestan | 81 | 85 | 86,3 | 87 |
| Republic of Ingushetia | | 95 | 99 | 100 |
| Kabardino-Balkarskaya Republic | 75 | 83 | 84 | 83 |
| Karachaevo-Cherkessia Republic | 86 | 90 | 44 | 88 |
| Republic of North-Ossetia-Alania | 71 | 76 | 79 | 81 |
| Krasnodar Krai | 74 | 79 | 81 | 84 |
| Stavropol Krai | 76,5 | 80 | 83 | 83 |
| Rostov Oblast | 75 | 78 | 81 | 82 |
| Republic of Bashkortostan | 51 | 54 | 54 | 53 |
| Udmurt Republic | 40 | 54 | 53 | 49 |
| Kurgan Oblast | 67 | 74 | 73 | 73 |
| Orenburg Oblast | 58 | 64 | 60 | 71 |
| Perm Oblast | 42 | 45 | 47 | 46 |
| Komi-Permyatsky AO | | 66 | 66 | 69 |
| Sverdlovsk Oblast | 59 | 63 | 61 | 60 |
| Chelyabinsk Oblast | 53 | 63 | 61 | 64 |
| Altay Republic | 75,2 | 77 | 81 | 89 |
| Altay Krai | 66 | 71 | 74 | 79 |
| Kemerovo Oblast | 54 | 60 | 63 | 63 |
| Novosibirsk Oblast | 47 | 62 | 64 | 65 |
| Omsk Oblast | 71 | 77 | 78 | 79 |
| Tomsk Oblast | 40 | 48 | 51 | 52 |
| Tymen Oblast | 32 | 54 | 50 | 54 |
| Khanty-Mansy AO | | 48 | 37 | 40 |
| Yamal-Nenetsk AO | | 53 | 39 | 56 |
| Republic of Buryatia | 53 | 59 | 61 | 63 |
| Republic of Tyva | 31 | 54 | 55 | 56 |
| Republic of Khakassia | 52 | 50 | 47 | 73 |
| Kransoyarsk Krai | 28,6 | 52 | 51 | 50 |
| Taymyr AO | | 5 | 6 | 5 |
| Evenk AO | | 28 | 23 | 23 |
| Irkutsk Oblast | 42 | 48 | 51 | 52 |
| Ust-Ordynsky Buryatsky AO | | 75 | 84 | 87 |
| Chita Oblast | 52 | 57 | 60 | 60 |
| Ahinsky Buryatsky AO | | 84 | 87 | 85 |
| Republic of Sakha (Yakutia) | 40 | 47 | 52 | 56 |
| Jewish AO | 54 | 59 | 60 | 61 |

| Region | 1993 | 1995 | 1997 | 1998 |
|--------------------|------|------|------|------|
| Chukotka AO | 19 | 27 | 32 | 8 |
| Primorsky Krai | 36 | 38 | 50 | 57 |
| Khabarovsk Krai | 41 | 42 | 44 | 48 |
| Amur Oblast | 49 | 53 | 57 | 63 |
| Kamchatka Oblast | 23 | 36 | 37 | 38 |
| Koryaksky AO | | 35 | 39 | 37 |
| Magadan Oblast | 24 | 29 | 36 | 43 |
| Sakhalin Oblast | 28 | 27 | 36 | 41 |
| Kaliningrad Oblast | 47 | 50 | 54 | 55 |

A.5.1.3. Indices of industrial output

Sources: Rossiysky statistichesky ezhegodnik. Sta. sb./Goskomstat Rossii. Moscow, 1999, p. 300-301, authors' calculations

| Region | Index of industrial output | |
|--------------------------------|----------------------------|--------------|
| | 1998 to 1993 | 1998 to 1995 |
| Republic of Karelia | 66,7 | 82,1 |
| Republic of Komi | 69,7 | 93,0 |
| Arkhangel'sk Oblast | 70,0 | 96,6 |
| Vologda Oblast | 84,8 | 97,1 |
| Murmansk Oblast | 83,3 | 98,4 |
| S-Petersburg | 45,2 | 80,5 |
| Leningrad Oblast | 66,7 | 85,2 |
| Novgorod Oblast | 61,9 | 92,9 |
| Pskov Oblast | 37,7 | 78,8 |
| Bryansk Oblast | 44,3 | 77,1 |
| Vladimir Oblast | 54,4 | 88,1 |
| Ivanovo Oblast | 38,6 | 73,3 |
| Kaluga Oblast | 71,2 | 91,3 |
| Kostroma Oblast | 52,2 | 94,6 |
| City of Moscow | 56,1 | 88,1 |
| Moscow Oblast | 47,0 | 79,5 |
| Orel Oblast | 64,1 | 110,8 |
| Ryazan Oblast | 53,7 | 83,7 |
| Smolensk Oblast | 58,7 | 81,5 |
| Tver Oblast | 50,7 | 83,3 |
| Tula Oblast | 58,1 | 81,1 |
| Yaroslavl Oblast | 49,3 | 80,5 |
| Republic of Mary-El | 57,6 | 90,5 |
| Republic of Mordovia | 42,1 | 94,1 |
| Chuvash Republic | 43,9 | 76,3 |
| Kirov Oblast | 55,1 | 82,6 |
| Nizhny Novgorod Oblast | 55,4 | 92,7 |
| Belgorod Oblast | 81,2 | 97,2 |
| Voronezh Oblast | 41,9 | 77,5 |
| Kursk Oblast | 72,7 | 96,6 |
| Lipetsk Oblast | 78,9 | 84,8 |
| Tambov Oblast | 56,1 | 82,1 |
| Republic of Kalmykia | 40,3 | 69,0 |
| Republic of Tatarstan | 87,2 | 106,3 |
| Astrakhan Oblast | 61,5 | 90,8 |
| Volgograd Oblast | 52,3 | 82,9 |
| Penza Oblast | 40,8 | 70,7 |
| Samara Oblast | 71,4 | 91,7 |
| Saratov Oblast | 50,6 | 93,0 |
| Ulyanovsk Oblast | 69,4 | 100,0 |
| Republic of Adygea | 46,6 | 77,1 |
| Republic of Dagestan | 33,3 | 85,0 |
| Kabardino-Balkarskaya Republic | 39,4 | 81,3 |

| Region | Index of industrial output | |
|----------------------------------|----------------------------|--------------|
| | 1998 to 1993 | 1998 to 1995 |
| Karachaevo-Cherkessia Republic | 33,9 | 74,1 |
| Republic of North-Ossetia-Alania | 63,3 | 93,9 |
| Krasnodar Krai | 60,3 | 81,5 |
| Stavropol Krai | 54,7 | 72,9 |
| Rostov Oblast | 44,9 | 79,5 |
| Republic of Bashkortostan | 70,1 | 88,5 |
| Undmurt Republic | 56,7 | 86,4 |
| Kurgan Oblast | 50,7 | 85,0 |
| Orenburg Oblast | 64,6 | 83,6 |
| Perm Oblast | 72,0 | 93,1 |
| Sverdlovsk Oblast | 57,6 | 75,6 |
| Chelyabinsk Oblast | 52,9 | 80,4 |
| Altay Republic | 25,6 | 48,8 |
| Altay Krai | 43,7 | 75,6 |
| Kemerovo Oblast | 70,0 | 80,3 |
| Novosibirsk Oblast | 52,2 | 75,0 |
| Omsk Oblast | 54,3 | 74,5 |
| Tomsk Oblast | 70,0 | 88,7 |
| Tymen Oblast | 85,9 | 96,8 |
| Republic of Buryatia | 66,7 | 96,2 |
| Republic of Tyva | 46,4 | 64,0 |
| Republic of Khakassia | 67,0 | 84,4 |
| Kransoyarsk Krai | 80,3 | 96,6 |
| Irkutsk Oblast | 64,4 | 73,4 |
| Chita Oblast | 44,6 | 69,4 |
| Republic of Sakha (Yakutia) | 101,3 | 101,3 |
| Jewish AO | 20,9 | 46,7 |
| Chukotka AO | 73,6 | 110,4 |
| Primorsky Krai | 54,4 | 76,8 |
| Khabarovsk Krai | 38,6 | 81,8 |
| Amur Oblast | 50,0 | 76,6 |
| Kamchatka Oblast | 65,1 | 87,2 |
| Magadan Oblast | 72,5 | 95,1 |
| Sakhalin Oblast | 66,1 | 67,2 |
| Kaliningrad Oblast | 42,4 | 75,7 |

A.5.1.4. Non-government investment in the industrial sector and the share of unprofitable enterprises

Note:

The proportion of non-government off-budget investment in the overall volume of investment in the industrial sector in 1998 was calculated as follows:

- based on the data on the overall volume of investment in capital assets across all the sectors as an absolute value and their sectoral distribution across regions (as %), it became possible to obtain the data on the absolute volume of investment in capital assets in the industrial sector across the country's regions (1);

- based on the data on the overall volume of investment in capital assets across all the sectors as an absolute value and their distribution by sources of funding (as %) across regions, it became possible to obtain the data on the absolute volume of investment in capital assets made at the expense of borrowed off-budget funds (that is, banking credits, funds borrowed from other institutions, including those from stock issuance), across regions (2);

- the hypothesis was laid out that all the investment in capital assets made at the expense of the attracted off-budget funds were made in the industrial sector, because some minor investments in the agrarian sector are made at the expense of budget sources and enterprises' own capital, while the process of capital formation in other sectors is relatively insignificant;

- the proportion of non-government off-budget investment in the overall volume of investment in the industrial sector was calculated as quotient of values (2) and (1) across regions, thus being a possible indicator of investment climate in the industrial sector of different regions and their [sectors] ability to employ external sources for the process of investing.

Sources: Regiony Rossii: Stat. Sb. in two volumes. Vol.2/ Goskomstat Rossii.-Moscow, 1999, p. 780-81, 791-92, 802-3, 808-11, authors' calculations.

| Region | Investment | Umptofitable |
|----------------------------------|-------------------|---------------------|
| Republic of Karelia | 16,3 | 50,4 |
| Republic of Komi | 22,9 | 60,2 |
| Arkhangel'sk Oblast | 42,4 | 64,3 |
| Vologda Oblast | 29,3 | 34,0 |
| Murmansk Oblast | 30,7 | 41,8 |
| S-Petersburg | 133,0 | 33,4 |
| Leningrad Oblast | 59,8 | 43,1 |
| Novgorod Oblast | 138,3 | 52,1 |
| Pskov Oblast | 66,4 | 43,8 |
| Bryansk Oblast | 87,1 | 48,7 |
| Vladimir Oblast | 47,1 | 48,9 |
| Ivanovo Oblast | 31,4 | 60,1 |
| Kaluga Oblast | 186,5 | 44,6 |
| Kostroma Oblast | 70,1 | 51,1 |
| City of Moscow | 204,8 | 36,3 |
| Moscow Oblast | 106,4 | 39,9 |
| Orel Oblast | 142,6 | 46,8 |
| Ryazan Oblast | 6,9 | 50,2 |
| Smolensk Oblast | 48,2 | 49,2 |
| Tver Oblast | 32,0 | 43,7 |
| Tula Oblast | 60,1 | 45,2 |
| Yaroslavl Oblast | 39,2 | 43,3 |
| Republic of Mary-El | 107,1 | 50,3 |
| Republic of Mordovia | 38,6 | 55,1 |
| Chuvash Republic | 64,0 | 45,4 |
| Kirov Oblast | 47,2 | 52,9 |
| Nizhny Novgorod Oblast | 26,8 | 40,0 |
| Belgorod Oblast | 74,7 | 38,6 |
| Voronezh Oblast | 106,5 | 44,6 |
| Kursk Oblast | 23,7 | 50,6 |
| Lipetsk Oblast | 57,5 | 42,8 |
| Tambov Oblast | 86,5 | 48,4 |
| Republic of Kalmykia | 136,0 | 69,7 |
| Republic of Tatarstan | 48,9 | 44,7 |
| Astrakhan Oblast | 131,5 | 43,4 |
| Volgograd Oblast | 46,6 | 52,5 |
| Penza Oblast | 131,0 | 51,8 |
| Samara Oblast | 35,4 | 37,9 |
| Saratov Oblast | 70,6 | 38,8 |
| Ulyanovsk Oblast | 47,5 | 56,4 |
| Republic of Adygea | 129,1 | 50,0 |
| Republic of Dagestan | 8,1 | 67,5 |
| Kabardino-Balkarskaya Republic | 10,4 | 58,9 |
| Karachaevo-Cherkessia Republic | 154,9 | 46,4 |
| Republic of North-Ossetia-Alania | 162,9 | 53,6 |
| Krasnodar Krai | 72,5 | 44,3 |
| Stavropol Krai | 79,8 | 44,1 |
| Rostov Oblast | 43,4 | 44,6 |
| Republic of Bashkortostan | 31,7 | 51,7 |
| Udmurt Republic | 17,8 | 47,8 |
| Kurgan Oblast | 71,6 | 55,1 |
| Orenburg Oblast | 39,8 | 45,8 |

| Region | Investment | Umptofitable |
|------------------------------|-------------------|---------------------|
| Perm Oblast | 26,5 | 47,5 |
| Sverdlovsk Oblast | 34,6 | 48,0 |
| Chelyabinsk Oblast | 34,7 | 46,2 |
| Altay Republic | 35,5 | 57,1 |
| Altay Krai | 53,3 | 55,5 |
| Kemerovo Oblast | 29,7 | 56,5 |
| Novosibirsk Oblast | 64,0 | 45,7 |
| Omsk Oblast | 84,8 | 67,4 |
| Tomsk Oblast | 76,7 | 64,0 |
| Tymen Oblast | 20,0 | 55,9 |
| Republic of Buryatia | 27,5 | 75,1 |
| Republic of Tyva | 25,1 | 76,4 |
| Republic of Khakassia | 13,4 | 60,2 |
| Kransoyarsk Krai | 13,6 | 56,8 |
| Irkutsk Oblast | 38,1 | 67,0 |
| Chita Oblast | 28,6 | 64,1 |
| Republic of Sakha (Yakutia) | 80,0 | 63,9 |
| Jewish AO | 1,5 | 63,3 |
| Chukotka AO | 162,5 | 85,7 |
| Primorsky Krai | 39,1 | 48,1 |
| Khabarovsk Krai | 85,7 | 52,7 |
| Amur Oblast | 73,7 | 58,8 |
| Kamchatka Oblast | 22,7 | 63,2 |
| Magadan Oblast | 9,6 | 61,5 |
| Sakhalin Oblast | 8,6 | 61,6 |
| Kaliningrad Oblast | 26,3 | 50,8 |

5.1.5. Information on the 1996 presidential elections

Sources: the information was provided by the Working center for Economic Reform under the RF Government.

| Subjects of the Federation | Eltzin | Zuganov | Lebedev | Yavlinsky | Zhirinovskiy | Fedorov | Gorbachev | Vlasov | Bryntsalov | Shakum | Communists | Nationalists-patriots | Centrists | Democrats | Against all | Eltzin-2 nd round | Zuganov-2 nd round | Against both- sec |
|----------------------------------|--------|---------|---------|-----------|--------------|---------|-----------|--------|------------|--------|------------|-----------------------|-----------|-----------|-------------|------------------------------|-------------------------------|-------------------|
| Republic of Adygea | 20,02 | 51,50 | 13,99 | 5,29 | 5,07 | 0,99 | 0,25 | 0,15 | 0,14 | 0,32 | 52,14 | 19,46 | 20,99 | 6,35 | 1,06 | 34,48 | 60,53 | 3,43 |
| Altay Republic | 28,48 | 43,61 | 13,03 | 3,46 | 4,83 | 0,86 | 1,00 | 0,24 | 0,18 | 0,49 | 44,60 | 18,51 | 30,83 | 4,42 | 1,64 | 43,04 | 51,68 | 3,79 |
| Republic of Bashkortostan | 34,19 | 41,86 | 8,93 | 6,78 | 2,87 | 0,54 | 0,77 | 0,13 | 0,18 | 0,32 | 42,72 | 12,18 | 36,19 | 7,48 | 1,44 | 51,01 | 43,14 | 3,64 |
| Republic of Buryatia | 30,59 | 40,22 | 10,57 | 7,59 | 4,84 | 1,24 | 0,58 | 0,17 | 0,13 | 0,27 | 41,21 | 15,97 | 32,34 | 9,04 | 1,44 | 45,30 | 49,50 | 3,77 |
| Republic of Dagestan | 28,52 | 63,23 | 1,34 | 1,70 | 1,12 | 0,27 | 0,35 | 0,08 | 0,13 | 0,09 | 64,95 | 2,60 | 29,87 | 2,03 | 0,55 | 52,65 | 44,81 | 0,83 |
| Republic of Ingushetia | 46,26 | 24,49 | 2,24 | 15,19 | 1,74 | 0,77 | 4,45 | 0,18 | 0,38 | 0,37 | 24,99 | 4,25 | 52,52 | 16,29 | 1,95 | 79,80 | 15,52 | 3,30 |
| Kabardino-Balkarskaya Republic | 43,75 | 37,25 | 9,80 | 3,36 | 1,43 | 0,48 | 0,34 | 0,12 | 0,12 | 0,19 | 38,16 | 11,62 | 45,50 | 3,94 | 0,77 | 63,61 | 33,18 | 1,95 |
| Republic of Kalmykia | 58,49 | 25,72 | 5,42 | 2,50 | 3,57 | 0,42 | 0,35 | 0,08 | 0,12 | 0,15 | 26,32 | 9,28 | 60,49 | 2,99 | 0,93 | 70,27 | 26,71 | 1,98 |
| Karachaevo-Cherkessia Republic | 25,82 | 55,42 | 8,77 | 3,07 | 2,49 | 0,48 | 0,50 | 0,11 | 0,29 | 0,25 | 56,58 | 11,61 | 27,42 | 3,63 | 0,78 | 49,89 | 46,09 | 2,40 |
| Republic of Karelia | 42,36 | 16,99 | 12,04 | 14,27 | 8,48 | 0,98 | 0,49 | 0,18 | 0,19 | 0,53 | 17,26 | 21,03 | 44,26 | 15,48 | 1,97 | 66,21 | 26,39 | 6,60 |
| Republic of Komi | 40,48 | 16,32 | 18,17 | 9,45 | 9,82 | 0,85 | 0,60 | 0,19 | 0,18 | 0,40 | 16,60 | 28,67 | 42,38 | 10,48 | 1,87 | 64,36 | 28,03 | 6,59 |
| Republic of Mary-El | 24,35 | 43,44 | 10,97 | 7,37 | 7,43 | 1,32 | 0,47 | 0,18 | 0,17 | 0,61 | 44,22 | 18,91 | 26,06 | 8,84 | 1,97 | 40,74 | 52,78 | 5,18 |
| Republic of Mordovia | 24,14 | 49,71 | 10,64 | 3,00 | 6,86 | 0,69 | 0,30 | 0,20 | 0,13 | 0,13 | 51,40 | 18,30 | 25,55 | 3,81 | 0,94 | 45,63 | 47,74 | 3,12 |
| Republic of Sakha (Yakutia) | 51,85 | 20,55 | 12,61 | 4,68 | 3,65 | 1,05 | 0,79 | 0,17 | 0,16 | 0,26 | 21,09 | 16,87 | 54,45 | 5,89 | 1,71 | 64,65 | 29,87 | 4,07 |
| Republic of North-Ossetia-Alania | 19,28 | 62,33 | 9,60 | 1,80 | 3,23 | 0,57 | 0,29 | 0,19 | 0,15 | 0,17 | 63,15 | 13,19 | 20,15 | 2,40 | 1,12 | 43,00 | 52,82 | 2,35 |
| Republic of Tatarstan | 38,34 | 38,10 | 7,38 | 6,90 | 2,58 | 0,92 | 0,81 | 0,17 | 0,18 | 0,24 | 39,18 | 10,42 | 40,70 | 8,05 | 1,66 | 61,45 | 32,31 | 3,64 |
| Republic of Tyva | 59,93 | 21,17 | 4,54 | 4,22 | 3,02 | 0,46 | 1,00 | 0,14 | 0,15 | 0,21 | 22,09 | 8,04 | 63,95 | 4,88 | 1,05 | 63,07 | 32,11 | 2,09 |
| Udmurt Republic | 36,81 | 30,47 | 11,52 | 9,23 | 5,99 | 0,92 | 0,69 | 0,23 | 0,19 | 0,41 | 30,95 | 18,02 | 38,69 | 10,31 | 2,03 | 52,83 | 40,73 | 5,42 |
| Republic of Khakassia | 29,24 | 35,48 | 12,53 | 7,25 | 9,69 | 1,20 | 0,63 | 0,26 | 0,18 | 0,41 | 36,01 | 22,82 | 30,93 | 8,57 | 1,67 | 47,18 | 47,15 | 4,79 |
| Chechen Republic | 65,11 | 16,32 | 2,54 | 4,25 | 1,40 | 1,03 | 1,77 | 0,40 | 0,22 | 0,30 | 17,07 | 4,55 | 70,52 | 5,53 | 2,33 | 73,38 | 21,54 | 4,04 |
| Chuvash Republic | 20,55 | 53,93 | 7,65 | 4,57 | 4,25 | 3,24 | 0,36 | 0,14 | 0,15 | 0,34 | 56,01 | 12,51 | 22,23 | 8,12 | 1,14 | 31,82 | 62,59 | 3,34 |
| Altay Krai | 21,80 | 41,97 | 19,39 | 5,05 | 7,38 | 0,68 | 0,46 | 0,14 | 0,12 | 0,34 | 42,53 | 27,26 | 23,03 | 5,81 | 1,36 | 38,56 | 55,52 | 4,96 |
| Krasnodar Krai | 26,26 | 39,42 | 17,49 | 6,36 | 6,38 | 0,90 | 0,31 | 0,15 | 0,16 | 0,21 | 39,88 | 24,30 | 27,26 | 7,34 | 1,22 | 43,89 | 51,48 | 3,81 |
| Kransoyarsk Krai | 34,80 | 28,52 | 13,87 | 10,01 | 7,58 | 0,88 | 0,59 | 0,16 | 0,13 | 0,41 | 28,89 | 21,89 | 36,39 | 11,04 | 1,78 | 53,43 | 40,01 | 5,65 |
| Primorsky Krai | 29,55 | 24,56 | 19,47 | 7,16 | 12,73 | 1,25 | 0,55 | 0,20 | 0,18 | 0,83 | 24,87 | 32,81 | 31,51 | 8,52 | 2,29 | 52,26 | 39,41 | 7,40 |
| Stavropol Krai | 22,00 | 43,93 | 19,34 | 4,10 | 6,19 | 0,78 | 0,60 | 0,15 | 0,16 | 0,39 | 44,45 | 25,98 | 23,42 | 4,93 | 1,21 | 40,93 | 53,93 | 4,20 |
| Khabarovsk Krai | 39,01 | 22,92 | 12,24 | 10,42 | 8,65 | 2,16 | 0,69 | 0,19 | 0,13 | 0,36 | 23,16 | 21,30 | 40,61 | 12,71 | 2,22 | 58,98 | 33,72 | 6,54 |
| Amur Oblast | 26,60 | 41,85 | 11,84 | 6,06 | 7,91 | 1,18 | 0,50 | 0,18 | 0,16 | 0,31 | 42,39 | 20,19 | 27,92 | 7,33 | 2,16 | 40,67 | 53,07 | 5,44 |
| Arkhangel'sk Oblast | 40,85 | 18,32 | 17,28 | 10,79 | 6,56 | 1,56 | 0,56 | 0,23 | 0,20 | 0,54 | 18,54 | 24,34 | 42,64 | 12,50 | 1,99 | 63,91 | 27,75 | 7,46 |
| Astrakhan Oblast | 29,52 | 36,54 | 16,14 | 6,04 | 7,16 | 0,92 | 0,32 | 0,15 | 0,14 | 0,18 | 37,11 | 23,81 | 30,62 | 7,06 | 1,40 | 46,85 | 47,79 | 4,42 |
| Belgorod Oblast | 22,87 | 46,35 | 16,95 | 5,75 | 4,31 | 0,52 | 0,34 | 0,13 | 0,12 | 0,15 | 46,94 | 21,67 | 23,77 | 6,35 | 1,27 | 36,28 | 58,57 | 4,09 |
| Bryansk Oblast | 26,23 | 49,58 | 11,60 | 3,48 | 5,09 | 0,59 | 0,33 | 0,13 | 0,11 | 0,15 | 50,31 | 17,06 | 27,21 | 4,13 | 1,30 | 36,29 | 59,23 | 3,44 |
| Vladimir Oblast | 30,89 | 29,87 | 19,91 | 7,39 | 6,71 | 0,80 | 0,41 | 0,22 | 0,18 | 0,45 | 30,34 | 27,26 | 32,43 | 8,32 | 1,65 | 51,56 | 41,86 | 5,64 |

| Subjects of the Federation | Eltzin | Zuganov | Lebedev | Yavlinsky | Zhirinovskiy | Fedorov | Gorbachev | Vlasov | Bryntalov | Shakum | Communists | Nationalists-patriots | Centrists | Democrats | Against all | Eltzin-2 nd round | Zuganov-2 nd round | Against both- sec |
|----------------------------|--------|---------|---------|-----------|--------------|---------|-----------|--------|-----------|--------|------------|-----------------------|-----------|-----------|-------------|------------------------------|-------------------------------|-------------------|
| Volgograd Oblast | 28,59 | 40,04 | 13,65 | 6,43 | 6,55 | 1,34 | 0,42 | 0,18 | 0,14 | 0,25 | 40,46 | 20,60 | 29,70 | 7,85 | 1,39 | 44,21 | 50,48 | 4,55 |
| Vologda Oblast | 45,17 | 18,66 | 17,63 | 5,92 | 7,12 | 0,87 | 0,68 | 0,19 | 0,19 | 0,34 | 18,85 | 25,21 | 46,87 | 6,86 | 2,20 | 63,97 | 28,49 | 6,82 |
| Voronezh Oblast | 22,65 | 45,48 | 17,46 | 4,43 | 5,84 | 0,76 | 0,31 | 0,17 | 0,13 | 0,16 | 46,03 | 23,76 | 23,52 | 5,25 | 1,43 | 36,97 | 57,64 | 4,58 |
| Ivanovo Oblast | 29,60 | 23,22 | 29,59 | 6,08 | 7,00 | 0,61 | 0,37 | 0,16 | 0,16 | 0,27 | 23,53 | 37,23 | 30,81 | 6,78 | 1,65 | 53,20 | 39,06 | 6,91 |
| Irkutsk Oblast | 32,20 | 27,57 | 16,29 | 8,86 | 8,48 | 1,97 | 0,63 | 0,23 | 0,15 | 0,40 | 28,00 | 25,39 | 33,90 | 11,00 | 1,71 | 52,64 | 39,77 | 6,29 |
| Kaliningrad Oblast | 33,46 | 23,08 | 19,31 | 12,85 | 7,20 | 0,61 | 0,43 | 0,16 | 0,17 | 0,16 | 23,34 | 26,97 | 34,61 | 13,61 | 1,46 | 57,69 | 35,34 | 6,14 |
| Kaluga Oblast | 31,43 | 35,42 | 15,60 | 7,46 | 5,11 | 0,86 | 0,39 | 0,19 | 0,19 | 0,46 | 35,91 | 21,19 | 32,92 | 8,44 | 1,54 | 48,59 | 45,58 | 4,98 |
| Kamchatka Oblast | 34,29 | 18,69 | 14,06 | 17,28 | 9,96 | 1,03 | 0,52 | 0,29 | 0,21 | 0,32 | 18,89 | 24,57 | 35,72 | 18,50 | 2,32 | 61,81 | 29,47 | 7,98 |
| Kemerovo Oblast | 23,02 | 38,88 | 15,29 | 5,34 | 11,63 | 1,63 | 0,50 | 0,14 | 0,11 | 0,36 | 39,46 | 27,46 | 24,34 | 7,08 | 1,66 | 41,54 | 51,54 | 5,86 |
| Kirov Oblast | 31,24 | 28,96 | 13,70 | 12,15 | 8,62 | 0,83 | 0,42 | 0,18 | 0,19 | 0,40 | 29,34 | 22,80 | 32,68 | 13,14 | 2,04 | 50,70 | 41,57 | 6,78 |
| Kostroma Oblast | 28,02 | 28,57 | 23,26 | 7,77 | 7,62 | 0,76 | 0,46 | 0,20 | 0,17 | 0,27 | 28,95 | 31,49 | 29,31 | 8,65 | 1,60 | 49,86 | 42,70 | 6,64 |
| Kurgan Oblast | 29,25 | 37,53 | 11,14 | 6,61 | 9,99 | 0,79 | 0,53 | 0,16 | 0,18 | 0,35 | 38,05 | 21,59 | 30,74 | 7,50 | 2,11 | 43,41 | 50,22 | 5,41 |
| Kursk Oblast | 24,06 | 51,13 | 11,06 | 5,38 | 3,89 | 0,58 | 0,36 | 0,15 | 0,13 | 0,16 | 52,06 | 15,38 | 25,16 | 6,07 | 1,33 | 36,24 | 58,92 | 3,47 |
| Leningrad Oblast | 37,46 | 23,17 | 18,12 | 11,60 | 4,29 | 1,19 | 0,62 | 0,19 | 0,24 | 0,38 | 23,42 | 22,84 | 39,11 | 12,92 | 1,71 | 61,35 | 32,30 | 5,69 |
| Lipetsk Oblast | 25,08 | 46,37 | 13,16 | 5,56 | 5,32 | 0,69 | 0,28 | 0,16 | 0,11 | 0,19 | 47,11 | 18,93 | 26,08 | 6,35 | 1,53 | 38,62 | 56,30 | 4,05 |
| Magadan Oblast | 36,93 | 16,04 | 23,86 | 6,15 | 10,91 | 1,43 | 0,47 | 0,27 | 0,24 | 0,38 | 16,18 | 35,36 | 38,36 | 7,64 | 2,45 | 63,57 | 27,54 | 8,22 |
| Moscow Oblast | 44,15 | 24,05 | 15,07 | 7,87 | 3,00 | 0,91 | 0,46 | 0,31 | 0,25 | 0,84 | 24,38 | 18,63 | 46,33 | 8,90 | 1,76 | 64,20 | 29,89 | 5,08 |
| Murmansk Oblast | 40,62 | 12,09 | 25,43 | 9,68 | 6,98 | 0,89 | 0,52 | 0,37 | 0,25 | 0,25 | 12,21 | 33,09 | 42,03 | 10,67 | 2,01 | 70,13 | 21,88 | 7,36 |
| Nizhny Novgorod Oblast | 34,83 | 32,53 | 14,77 | 7,14 | 5,43 | 0,88 | 0,43 | 0,22 | 0,23 | 0,27 | 33,04 | 20,75 | 36,32 | 8,15 | 1,75 | 51,74 | 42,35 | 4,88 |
| Novgorod Oblast | 35,68 | 23,71 | 18,48 | 11,00 | 6,20 | 0,82 | 0,59 | 0,18 | 0,23 | 0,30 | 23,98 | 25,14 | 37,22 | 11,95 | 1,71 | 59,14 | 33,99 | 6,15 |
| Novosibirsk Oblast | 25,61 | 34,96 | 10,00 | 13,94 | 9,76 | 1,01 | 1,11 | 0,13 | 0,10 | 0,21 | 35,48 | 20,18 | 27,44 | 15,17 | 1,73 | 43,74 | 48,90 | 6,28 |
| Omsk Oblast | 32,80 | 36,99 | 8,37 | 8,96 | 6,95 | 0,77 | 0,45 | 0,17 | 0,12 | 0,71 | 37,61 | 15,75 | 34,65 | 9,90 | 2,10 | 46,23 | 47,51 | 5,14 |
| Orenburg Oblast | 25,96 | 42,13 | 13,62 | 5,84 | 7,51 | 0,93 | 0,63 | 0,15 | 0,17 | 0,21 | 42,81 | 21,62 | 27,42 | 6,88 | 1,27 | 40,81 | 53,94 | 4,20 |
| Orel Oblast | 21,46 | 54,25 | 11,80 | 3,89 | 4,41 | 0,63 | 0,31 | 0,16 | 0,12 | 0,15 | 54,94 | 16,57 | 22,32 | 4,58 | 1,59 | 32,05 | 63,28 | 3,83 |
| Penza Oblast | 20,81 | 50,60 | 12,06 | 6,93 | 5,29 | 0,66 | 0,28 | 0,15 | 0,12 | 0,20 | 51,35 | 17,76 | 21,73 | 7,71 | 1,45 | 35,50 | 58,95 | 4,59 |
| Perm Oblast | 55,27 | 16,12 | 9,69 | 7,21 | 6,24 | 0,92 | 0,62 | 0,18 | 0,17 | 0,32 | 16,36 | 16,35 | 57,23 | 8,26 | 1,80 | 70,84 | 23,57 | 4,56 |
| Pskov Oblast | 24,81 | 30,39 | 23,56 | 7,04 | 10,19 | 0,68 | 0,41 | 0,15 | 0,17 | 0,24 | 30,67 | 34,22 | 25,87 | 7,79 | 1,45 | 45,23 | 48,08 | 5,87 |
| Rostov Oblast | 29,08 | 34,99 | 20,04 | 7,70 | 4,61 | 0,60 | 0,32 | 0,14 | 0,12 | 0,21 | 35,39 | 25,08 | 30,07 | 8,40 | 1,07 | 50,67 | 44,17 | 4,25 |
| Ryazan Oblast | 24,70 | 40,07 | 19,81 | 5,60 | 5,43 | 0,66 | 0,35 | 0,18 | 0,14 | 0,31 | 40,53 | 25,71 | 25,80 | 6,33 | 1,64 | 42,57 | 51,62 | 4,92 |
| Samara Oblast | 36,13 | 35,17 | 11,65 | 6,16 | 5,61 | 0,99 | 0,48 | 0,26 | 0,11 | 0,66 | 35,59 | 17,73 | 37,82 | 7,23 | 1,63 | 51,95 | 42,69 | 4,51 |
| Saratov Oblast | 28,38 | 41,59 | 12,76 | 5,28 | 7,09 | 0,94 | 0,36 | 0,19 | 0,15 | 0,27 | 42,14 | 20,31 | 29,55 | 6,31 | 1,69 | 44,08 | 49,94 | 4,86 |
| Sakhalin Oblast | 29,86 | 26,91 | 18,67 | 9,26 | 9,06 | 1,37 | 0,57 | 0,19 | 0,19 | 0,41 | 27,29 | 28,31 | 31,47 | 10,79 | 2,14 | 53,38 | 38,81 | 6,84 |
| Sverdlovsk Oblast | 59,45 | 11,66 | 14,18 | 5,36 | 4,88 | 1,05 | 0,43 | 0,17 | 0,14 | 0,27 | 11,78 | 19,43 | 60,91 | 6,48 | 1,40 | 76,92 | 17,89 | 4,39 |
| Smolensk Oblast | 21,98 | 44,57 | 15,92 | 5,11 | 8,33 | 0,59 | 0,36 | 0,14 | 0,12 | 0,25 | 45,11 | 24,69 | 22,99 | 5,77 | 1,44 | 38,15 | 56,25 | 4,78 |
| Tambov Oblast | 20,91 | 52,26 | 11,71 | 4,63 | 6,10 | 0,81 | 0,30 | 0,17 | 0,14 | 0,19 | 53,01 | 18,24 | 21,86 | 5,51 | 1,38 | 32,57 | 62,85 | 3,70 |
| Tver Oblast | 32,11 | 33,59 | 17,14 | 6,95 | 5,52 | 0,73 | 0,38 | 0,19 | 0,17 | 0,41 | 33,94 | 23,10 | 33,42 | 7,76 | 1,77 | 50,16 | 43,65 | 5,49 |
| Tomsk Oblast | 34,95 | 22,13 | 19,69 | 10,90 | 7,11 | 0,79 | 0,60 | 0,17 | 0,14 | 0,30 | 22,49 | 27,42 | 36,58 | 11,88 | 1,63 | 59,17 | 33,69 | 6,05 |

| Subjects of the Federation | Eltzin | Zuganov | Lebedev | Yavlinsky | Zhirinovsky | Fedorov | Gorbachev | Vlasov | Bryntsalov | Shakum | Communists | National-patriots | Centrists | Democrats | Against all | Eltzin-2 nd round | Zuganov-2 nd round | Against both- sec |
|----------------------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------------|--------------|-------------|-------------|------------------------------|-------------------------------|-------------------|
| Tula Oblast | 29,96 | 30,23 | 24,03 | 6,59 | 4,58 | 0,60 | 0,32 | 0,17 | 0,14 | 0,34 | 30,70 | 29,22 | 31,24 | 7,30 | 1,53 | 52,42 | 41,13 | 5,37 |
| Tymen Oblast | 39,07 | 27,31 | 13,28 | 5,70 | 9,38 | 0,82 | 0,53 | 0,16 | 0,16 | 0,35 | 27,72 | 23,17 | 40,71 | 6,62 | 1,79 | 55,82 | 38,16 | 4,96 |
| Ulyanovsk Oblast | 23,78 | 45,83 | 12,34 | 5,91 | 7,38 | 0,92 | 0,33 | 0,15 | 0,13 | 0,27 | 46,53 | 20,17 | 24,88 | 6,93 | 1,49 | 37,83 | 56,28 | 4,64 |
| Chelyabinsk Oblast | 36,60 | 24,73 | 19,82 | 8,77 | 5,23 | 0,73 | 0,48 | 0,15 | 0,14 | 0,35 | 25,14 | 25,61 | 38,20 | 9,66 | 1,39 | 58,52 | 34,96 | 5,30 |
| Chita Oblast | 24,54 | 39,12 | 11,70 | 5,49 | 12,95 | 1,26 | 0,54 | 0,18 | 0,16 | 0,34 | 39,77 | 25,24 | 26,00 | 6,86 | 2,13 | 40,89 | 52,50 | 5,33 |
| Yaroslavl Oblast | 32,93 | 18,20 | 31,00 | 8,32 | 4,84 | 0,62 | 0,42 | 0,18 | 0,15 | 0,52 | 18,42 | 36,47 | 34,43 | 9,04 | 1,64 | 60,53 | 31,51 | 7,18 |
| City of Moscow | 61,16 | 14,85 | 9,62 | 7,96 | 1,46 | 0,81 | 0,50 | 0,44 | 0,19 | 0,64 | 14,99 | 11,62 | 63,07 | 8,85 | 1,46 | 77,29 | 17,93 | 4,13 |
| S-Petersburg | 49,60 | 14,94 | 14,01 | 15,15 | 2,15 | 1,11 | 0,77 | 0,28 | 0,18 | 0,29 | 15,00 | 16,50 | 51,06 | 16,33 | 1,12 | 73,86 | 21,09 | 4,73 |
| Jewish AO | 30,36 | 32,84 | 15,30 | 6,45 | 7,99 | 1,81 | 0,66 | 0,20 | 0,21 | 0,37 | 33,30 | 23,81 | 32,03 | 8,38 | 2,47 | 49,43 | 43,68 | 5,76 |
| Ahinsky Buryatsky AO | 44,73 | 35,74 | 5,34 | 2,60 | 5,68 | 0,76 | 1,11 | 0,14 | 0,24 | 0,25 | 36,52 | 11,40 | 47,35 | 3,43 | 1,29 | 49,16 | 47,23 | 2,04 |
| Komi-Permyatsky AO | 53,29 | 23,71 | 5,45 | 3,00 | 8,51 | 0,51 | 0,85 | 0,16 | 0,25 | 0,29 | 24,17 | 14,40 | 55,75 | 3,57 | 2,11 | 62,78 | 32,58 | 3,39 |
| Koryaksky AO | 45,99 | 14,97 | 15,79 | 8,93 | 6,50 | 1,32 | 0,86 | 0,28 | 0,35 | 0,42 | 15,23 | 22,97 | 48,43 | 10,42 | 2,95 | 69,78 | 22,90 | 6,16 |
| Nenetsky AO | 42,64 | 18,37 | 11,98 | 7,64 | 9,93 | 2,20 | 1,01 | 0,32 | 0,30 | 0,50 | 18,67 | 22,60 | 45,19 | 10,00 | 3,54 | 61,54 | 28,89 | 8,39 |
| Taymyr AO | 49,70 | 12,14 | 14,98 | 6,50 | 10,12 | 1,54 | 1,01 | 0,18 | 0,17 | 0,53 | 12,27 | 25,56 | 51,98 | 8,13 | 2,06 | 71,62 | 21,57 | 6,06 |
| Ust-Ordynsky Buryatsky AO | 36,99 | 40,01 | 8,54 | 3,96 | 4,56 | 1,12 | 0,71 | 0,17 | 0,18 | 0,27 | 40,87 | 13,56 | 38,98 | 5,19 | 1,40 | 48,67 | 47,00 | 2,70 |
| Khanty-Mansy AO | 52,53 | 12,82 | 15,14 | 6,61 | 7,59 | 1,39 | 0,58 | 0,16 | 0,15 | 0,47 | 12,98 | 23,16 | 54,38 | 8,10 | 1,38 | 74,24 | 20,20 | 4,57 |
| Chukotka AO | 48,49 | 13,50 | 17,06 | 6,37 | 7,56 | 1,96 | 0,61 | 0,29 | 0,26 | 0,27 | 13,64 | 25,16 | 50,14 | 8,42 | 2,64 | 74,29 | 19,14 | 6,03 |
| Evenk AO | 43,42 | 20,00 | 16,41 | 6,29 | 7,05 | 1,65 | 0,81 | 0,35 | 0,19 | 0,48 | 20,30 | 24,17 | 45,58 | 8,06 | 1,88 | 65,76 | 28,33 | 5,10 |
| Yamal-Nenetsk AO | 55,26 | 9,18 | 15,76 | 6,25 | 7,57 | 1,57 | 0,68 | 0,17 | 0,19 | 0,57 | 9,31 | 23,81 | 57,49 | 7,94 | 1,45 | 79,28 | 15,18 | 4,73 |
| Russia | 35,28 | 32,03 | 14,52 | 7,34 | 5,70 | 0,92 | 0,51 | 0,20 | 0,16 | 0,37 | 32,49 | 20,72 | 36,84 | 8,39 | 1,56 | 53,82 | 40,31 | 4,82 |

A.5.2. The results of the regression analysis of the correlation between the level of development of the non-government sector and the economico-political situation in the regions.

A.5.2.1. The dependence of economic indicators on the level of privatization in the industrial sector

The proportion of unprofitable industrial enterprises in the overall number of industrial enterprises.

Let us consider a regression dependence of the share of unprofitable enterprises on the indices that depict the level of privatization in the industrial sector. The respective outputs are given in Tables A2-1-1- and A2-1-2

TABLE A2-1-1. RESULTS OF THE REGRESSION ANALYSIS OF 3 CHARACTERISTICS OF PRIVATIZATION IN THE INDUSTRIAL SECTOR (E1, P2, AND E)

| | |
|-------------------|--------|
| R | 0,556 |
| R Square | 0,309 |
| Adjusted R Square | 0,281 |
| Std. Error | 8,517 |
| N | 78 |
| F- statistic | 11,046 |
| DW- statistic | 1,036 |

TABLE P2-1-2. COEFFICIENTS OF LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P_v |
|----------------------|---------------------|-------------------|---------------------|----------------------|
| Constant | 131,428 | 16,091 | 8,168 | 0,000 |
| Share of enterprises | -0,587 | 0,200 | -2,933 | 0,004 |
| Share of output | -0,040 | 0,159 | -0,249 | 0,804 |
| Share of employees | -0,267 | 0,182 | -1,468 | 0,146 |

The results show that the present regression is generally significant at a high level (with $F=11.046$), however it is only the correlation between the share of unprofitable enterprises of the industrial sector and the share of enterprises of non-government sector that is significantly negative (with $P_v = 0.004$). Meanwhile, the correlation between the share of unprofitable enterprises and the share of employees at non-government industrial enterprises, and the share of output of the industrial enterprises in the non-government sector is negative, though insignificant ($P_v = 0.146$ and 0.804 , respectively). In addition, the value of statistics $DW = 1.036$ testifies to the existence of autocorrelation in residuals. That is why let us built the regression without the index of the share of output and taking into account the Cochrane-Orcutt transformation. The results are given in Tables A2-1-3 and A2-1-4.

TABLE A2-1-3. RESULTS OF THE REGRESSION ANALYSIS FROM 2 CHARACTERISTICS OF PRIVATIZATION OF THE INDUSTRIAL SECTOR (E1 AND E) WITH ACCOUNT FOR COCHRANE-ORCUTT TRANSFORMATION.

| | |
|-------------------|--------|
| R | 0,605 |
| R Square | 0,366 |
| Adjusted R Square | 0,340 |
| Std. Error | 7,468 |
| N | 78 |
| F-statistic | 21,104 |

TABLE P2-1-4. LINEAR REGRESSION COEFFICIENTS WITH ACCOUNT FOR COCHRANE-ORCUTT TRANSFORMATION.

| | Coefficients | Std. Error | t- statistic | P_v |
|----------------------|---------------------|-------------------|---------------------|----------------------|
| Constant | 121,326 | 12,945 | 9,373 | 0,000 |
| Share of enterprises | -0,522 | 0,163 | -3,199 | 0,002 |
| Share of employees | -0,258 | 0,082 | -3,155 | 0,002 |

As the results show, in this case the regression appears significant even at the 15 level (F= 21.104), with regression coefficients being significant at the 3% level.

The index of industrial output (let us consider two variants -relative to 1993 and 1995).

Let us consider the regression dependence of IIO in 1998 relative to 1993 on the indices that characterize the level of privatization in the industrial sector, with respective results being depicted in tables A2-1-5 and A2-1-6.

TABLE A2-1-5. RESULTS OF THE REGRESSION ANALYSIS OF 3 CHARACTERISTICS OF PRIVATIZATION IN THE INDUSTRIAL SECTOR (E1, P2, AND E)

| | |
|-------------------|--------|
| R | 0,229 |
| R Square | 0,052 |
| Adjusted R Square | 0,014 |
| Std. Error | 14,972 |
| Наблюдения | 78 |
| F- statistic | 1,362 |
| DW- statistic | 2,072 |

TABLE P2-1-6. COEFFICIENTS OF LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P_v |
|----------------------|---------------------|-------------------|---------------------|----------------------|
| Constant | 41,915 | 28,285 | 1,482 | 0,143 |
| Share of enterprises | 0,110 | 0,352 | 0,313 | 0,756 |
| Share of output | 0,563 | 0,279 | 2,014 | 0,048 |
| Share of employees | -0,514 | 0,320 | -1,607 | 0,112 |

As the results show, the respective regression is insignificant (F=1.362). The reduction of the model does not cause any significant results. Thus, there is no dependence of IIO on the indices characterizing the level of privatization in the industrial sector.

Let us proceed then with the regression dependence of IIO in 1998 relative to 1995 on the indices characterizing the level of privatization in the industrial sector. Results of the calculations are given in Tables P2-1-7 and P2-1-8.

TABLE A2-1-5. RESULTS OF THE REGRESSION ANALYSIS OF 3 CHARACTERISTICS OF PRIVATIZATION IN THE INDUSTRIAL SECTOR (E1, P2, AND E)

| | |
|-------------------|--------|
| R | 0,281 |
| R Square | 0,079 |
| Adjusted R Square | 0,042 |
| Std. Error | 11,244 |
| N | 78 |
| F- statistic | 2,115 |
| DW- statistic | 2,247 |

TABLE P2-1-8. COEFFICIENTS OF LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P_v |
|----------------------|---------------------|-------------------|---------------------|----------------------|
| Constant | 89,097 | 21,242 | 4,194 | 0,000 |
| Share of enterprises | 0,012 | 0,264 | 0,047 | 0,963 |
| Share of output | 0,473 | 0,210 | 2,253 | 0,027 |
| Share of employees | -0,561 | 0,240 | -2,335 | 0,022 |

As shown by the respective results, in this case the regression is insignificant even at the 10% level (F=2.115), however, all its coefficients (except the one related to the share of enterprises of the non- government sector in the overall number of industrial enterprises) are significant at the 5% level (and even at the 3% one). Let us built a regression without this index. The results of calculations are given in Tables A2-1-9 and A2-1-10.

TABLE A2-1-9. RESULTS OF THE REGRESSION ANALYSIS OF 2 CHARACTERISTICS OF PRIVATIZATION IN THE INDUSTRIAL SECTOR (P2, AND E)

| | |
|---|-------|
| R | 0,281 |
|---|-------|

| | |
|-------------------|--------|
| R Square | 0,079 |
| Adjusted R Square | 0,054 |
| Std. Error | 11,169 |
| N | 78 |
| F- statistic | 3,214 |
| DW- statistic | 2,250 |

TABLE P2-1-10. COEFFICIENTS OF LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|--------------------|--------------|------------|--------------|----------------|
| Constant | 89,957 | 10,618 | 8,472 | 0,000 |
| Share of output | 0,472 | 0,208 | 2,272 | 0,026 |
| Share of employees | -0,556 | 0,221 | -2,513 | 0,014 |

As the results show, in this case the regression is significant at the 5% level ($F=3.214$), while the regression coefficients are also significant at the 5% level (and even at the 3% one).

The proportion of non-government investment in the overall volume of investment in the industrial sector.

Let us consider the regression dependence of the share of non-government investment in the overall volume of investment in the industrial sector on the indices that characterize the level of privatization in the sector. The respective results are given in Tables A2-1-11 and A2-1-12.

TABLE A2-1-11. RESULTS OF THE REGRESSION ANALYSIS OF 3 CHARACTERISTICS OF PRIVATIZATION IN THE INDUSTRIAL SECTOR (E1, P2, AND E)

| | |
|-------------------|--------|
| R | 0,354 |
| R Square | 0,125 |
| Adjusted R Square | 0,090 |
| Std. Error | 44,215 |
| N | 78 |
| F- statistic | 3,534 |
| DW- statistic | 1,714 |

TABLE P2-1-12. COEFFICIENTS OF LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------------------|--------------|------------|--------------|----------------|
| Constant | 12,189 | 83,529 | 0,146 | 0,884 |
| Share of enterprises | 2,155 | 1,038 | 2,075 | 0,041 |
| Share of output | 0,240 | 0,825 | 0,290 | 0,772 |
| Share of employees | -2,040 | 0,944 | -2,160 | 0,034 |

The results show that on the whole the regression is significant at rather a high level ($F=3.534$; $P_v=0.019$). The correlation between the share of non-government enterprises and the share of enterprises of the non-government sector is significantly positive (with $P_v=0.041$), while the correlation between the share of non-government enterprises and the share of employees at these enterprises is significantly negative ($P_v=0.034$), and with the share of output of the enterprises of the non-government sector is insignificant. Let us build the regression without the latter. The respective results are given in Tables A2-1-13 and A2-1-14.

TABLE A2-1-13. RESULTS OF THE REGRESSION ANALYSIS OF 2 CHARACTERISTICS OF PRIVATIZATION IN THE INDUSTRIAL SECTOR (E1 AND E)

| | |
|-------------------|--------|
| R | 0,353 |
| R Square | 0,124 |
| Adjusted R Square | 0,101 |
| Std. Error | 43,944 |
| N | 78 |
| F- statistic | 5,324 |
| DW- statistic | 1,710 |

TABLE P2-1-14. COEFFICIENTS OF LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------------------|--------------|------------|--------------|----------------|
| Constant | 16,887 | 81,445 | 0,207 | 0,836 |
| Share of enterprises | 2,130 | 1,028 | 2,071 | 0,042 |
| Share of employees | -1,821 | 0,564 | -3,225 | 0,002 |

As the results show, in this case the regression is significant even at the 1% level ($F = 5.324$), with the regression coefficients, except the one with a intercept are also significant at the 5% level.

A.5.2.2. The dependence of the industrial sector privatization characteristics on the dynamics of industrial output.

The proportion of industrial enterprises of the non-government sector in the overall number of industrial enterprises in a region.

Let us built regressions of the share of industrial enterprises of the non-government sector in 1997 on the dynamics of the index of industrial output over the period between 1991 through 1997. The results are given in Table A2-2-1.

TABLE A2-2-1.

| Index | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|
| R | 0,327 | 0,327 | 0,326 | 0,317 | 0,299 | 0,229 | 0,098 |
| R Square | 0,107 | 0,107 | 0,106 | 0,101 | 0,090 | 0,052 | 0,010 |
| Adjusted R Square | 0,017 | 0,031 | 0,044 | 0,051 | 0,053 | 0,027 | -0,003 |
| Durbin-Watson | 1,946 | 1,944 | 1,941 | 1,943 | 1,938 | 1,938 | 1,853 |
| F | 1,196 | 1,415 | 1,713 | 2,041 | 2,427 | 2,075 | 0,732 |
| Sig. F | 0,317 | 0,221 | 0,143 | 0,097 | 0,072 | 0,133 | 0,395 |
| Constant | 86,210 | 86,631 | 86,969 | 90,112 | 90,091 | 96,064 | 94,995 |
| Constant (t) | 6,180 | 13,047 | 13,683 | 20,737 | 20,747 | 35,738 | 35,636 |
| Constant (Sig. t) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | 0,006 | | | | | | |
| INDEX 91 (t) | 0,034 | | | | | | |
| INDEX 91 (Sig. T) | 0,973 | | | | | | |
| INDEX 92 | 0,092 | 0,094 | 0,093 | | | | |
| INDEX 92 (t) | 0,598 | 0,684 | 0,680 | | | | |
| INDEX 92 (Sig. T) | 0,551 | 0,496 | 0,499 | | | | |
| INDEX 93 | 0,111 | 0,111 | 0,107 | 0,164 | 0,182 | | |
| INDEX 93 (t) | 0,796 | 0,801 | 0,786 | 1,542 | 1,737 | | |
| INDEX 93 (Sig. T) | 0,429 | 0,426 | 0,435 | 0,127 | 0,086 | | |
| INDEX 94 | -0,449 | -0,450 | -0,453 | -0,453 | -0,437 | -0,266 | -0,042 |
| INDEX 94 (t) | -2,684 | -2,710 | -2,764 | -2,772 | -2,692 | -2,033 | -0,856 |
| INDEX 94 (Sig. T) | 0,009 | 0,008 | 0,007 | 0,007 | 0,009 | 0,046 | 0,395 |
| INDEX 95 | 0,424 | 0,425 | 0,430 | 0,433 | 0,263 | 0,222 | |
| INDEX 95 (t) | 1,899 | 1,926 | 1,975 | 1,999 | 2,175 | 1,842 | |
| INDEX 95 (Sig. T) | 0,062 | 0,058 | 0,052 | 0,049 | 0,033 | 0,069 | |
| INDEX 96 | -0,101 | -0,103 | -0,145 | -0,144 | | | |
| INDEX 96 (t) | -0,368 | -0,380 | -0,950 | -0,946 | | | |
| INDEX 96 (Sig. T) | 0,714 | 0,705 | 0,345 | 0,347 | | | |
| INDEX 97 | -0,043 | -0,43 | | | | | |
| INDEX 97 (t) | -0,192 | -,191 | | | | | |
| INDEX 97 (Sig. T) | 0,848 | ,849 | | | | | |

As the Table shows, its is model #5 that appears the best: in the model, the share of non-government industrial enterprises in 1997 is determined by the indices of industrial output of 1993, 1994 and 1995. However, even in this case the regression dependence is significant just at the level of 7.2%; the regression coefficients under the indices for 1994 and 1995 are highly significant, while the coefficient under the 1993 index is significant only at the 10% level (more precisely, 8.6%).

Let us then build regressions of the share of industrial enterprises of the non-government sector in 1998 on the dynamics of the index of industrial output over 1991-98. The results are given in Table A2-2-2.

TABLE A2-2-2.

| Index | 1 | 2 | 3 | 4 | 5 | 6 |
|-------------------|--------|--------|--------|--------|--------|--------|
| R | 0,396 | 0,396 | 0,392 | 0,384 | 0,365 | 0,349 |
| R Square | 0,157 | 0,157 | 0,154 | 0,148 | 0,133 | 0,122 |
| Adjusted R Square | 0,059 | 0,072 | 0,082 | 0,088 | 0,086 | 0,086 |
| Durbin-Watson | 1,961 | 1,961 | 1,965 | 2,000 | 1,986 | 1,985 |
| F | 1,606 | 1,859 | 2,151 | 2,494 | 2,810 | 3,422 |
| Sig. F | 0,139 | 0,090 | 0,058 | 0,039 | 0,031 | 0,022 |
| Constant | 60,331 | 60,249 | 58,423 | 57,827 | 57,029 | 57,002 |
| Constant (t) | 3,878 | 3,905 | 3,920 | 3,899 | 3,845 | 3,844 |
| Constant (Sig. t) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | 0,314 | 0,323 | 0,337 | 0,378 | 0,389 | 0,403 |
| INDEX 91 (t) | 1,636 | 1,853 | 1,971 | 2,342 | 2,413 | 2,511 |
| INDEX 91 (Sig. T) | 0,106 | 0,068 | 0,053 | 0,022 | 0,018 | 0,014 |
| INDEX 92 | 0,021 | | | | | |
| INDEX 92 (t) | 0,114 | | | | | |
| INDEX 92 (Sig. T) | 0,910 | | | | | |
| INDEX 93 | 0,065 | 0,076 | 0,090 | | | |
| INDEX 93 (t) | 0,397 | 0,591 | 0,721 | | | |
| INDEX 93 (Sig. T) | 0,693 | 0,557 | 0,473 | | | |
| INDEX 94 | -0,376 | -0,375 | -0,362 | -0,288 | -0,327 | -0,344 |
| INDEX 94 (t) | -2,001 | -2,012 | -1,973 | -1,897 | -2,210 | -2,334 |
| INDEX 94 (Sig. T) | 0,049 | 0,048 | 0,052 | 0,062 | 0,030 | 0,022 |
| INDEX 95 | 0,390 | 0,390 | 0,321 | 0,304 | 0,405 | 0,288 |
| INDEX 95 (t) | 1,570 | 1,579 | 1,585 | 1,517 | 2,277 | 2,167 |
| INDEX 95 (Sig. T) | 0,121 | 0,119 | 0,118 | 0,134 | 0,026 | 0,033 |
| INDEX 96 | -0,151 | -0,151 | | | | |
| INDEX 96 (t) | -0,492 | -0,495 | | | | |
| INDEX 96 (Sig. T) | 0,624 | 0,622 | | | | |
| INDEX 97 | 0,427 | 0,437 | 0,323 | 0,297 | | |
| INDEX 97 (t) | 1,140 | 1,216 | 1,176 | 1,094 | | |
| INDEX 97 (Sig. T) | 0,258 | 0,228 | 0,244 | 0,277 | | |
| INDEX 98 | -0,385 | -0,396 | -0,383 | -0,355 | -0,125 | |
| INDEX 98 (t) | -1,434 | -1,571 | -1,538 | -1,448 | -0,989 | |
| INDEX 98 (Sig. T) | 0,156 | 0,121 | 0,129 | 0,152 | 0,326 | |

As it can be noted from the Table, it is model #6 that appears the best. In the model, the share of non-government industrial enterprises in 1998 is determined by the indices of industrial output of 1991, 1994 and 1995, while both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1995 index being the least significant - 3.3%).

The share of output produced by industrial enterprises of the non-government sector in the overall industrial output of the region.

Let us consider regression dependencies of the share of output produced by industrial enterprises of the non-government sector in 1997 on the dynamics of the index of industrial output over 1991-97. The results are given in Table A2-2-3.

TABLE A2-2-3.

| Index | 1 | 2 | 3 | 4 |
|-------|-------|-------|-------|-------|
| R | 0,494 | 0,493 | 0,488 | 0,488 |

| Index | 1 | 2 | 3 | 4 |
|-------------------|----------|----------|----------|----------|
| R Square | 0,244 | 0,243 | 0,238 | 0,238 |
| Adjusted R Square | 0,169 | 0,179 | 0,185 | 0,196 |
| Durbin-Watson | 2,292 | 2,315 | 2,348 | 2,341 |
| F | 3,235 | 3,807 | 4,501 | 5,693 |
| Sig. F | 0,005 | 0,002 | 0,001 | 0,000 |
| Constant | 94,320 | 87,248 | 93,519 | 92,184 |
| Constant (t) | 3,584 | 6,961 | 10,685 | 17,410 |
| Constant (Sig. t) | 0,001 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | -0,100 | | | |
| INDEX 91 (t) | -0,306 | | | |
| INDEX 91 (Sig. T) | 0,760 | | | |
| INDEX 92 | 0,221 | 0,183 | | |
| INDEX 92 (t) | 0,761 | 0,701 | | |
| INDEX 92 (Sig. T) | 0,449 | 0,485 | | |
| INDEX 93 | -0,154 | -0,151 | -0,040 | |
| INDEX 93 (t) | -0,586 | -0,576 | -0,192 | |
| INDEX 93 (Sig. T) | 0,560 | 0,567 | 0,848 | |
| INDEX 94 | -1,050 | -1,044 | -1,044 | -1,076 |
| INDEX 94 (t) | -3,324 | -3,333 | -3,346 | -4,097 |
| INDEX 94 (Sig. T) | 0,001 | 0,001 | 0,001 | 0,000 |
| INDEX 95 | 1,563 | 1,550 | 1,559 | 1,554 |
| INDEX 95 (t) | 3,711 | 3,723 | 3,759 | 3,779 |
| INDEX 95 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 96 | -1,765 | -1,741 | -1,753 | -1,725 |
| INDEX 96 (t) | -3,397 | -3,411 | -3,449 | -3,569 |
| INDEX 96 (Sig. T) | 0,001 | 0,001 | 0,001 | 0,001 |
| INDEX 97 | 1,179 | 1,167 | 1,182 | 1,163 |
| INDEX 97 (t) | 2,775 | 2,777 | 2,825 | 2,878 |
| INDEX 97 (Sig. T) | 0,007 | 0,007 | 0,006 | 0,005 |

As the Table A2-2-3 shows, it is model #4 which is the best in this case. In the model, the index concerned is determined by the indices of industrial output of 1994, 1995, 1996 and 1997. Meanwhile both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1997 index being the least significant - 0.5 %). However, a high significance of the Durbin-Watson statistics testifies to the existence of autocorrelation in the residuals of the model built, that is why let us adjust the model using the Cochrane-Orcutt transformation. The respective results are given in Table A2-2-4.

TABLE A2-2-4.

| Index | 1 | 2 | 3 | 4 |
|-------------------|----------|----------|----------|----------|
| R | 0,510 | 0,511 | 0,508 | 0,505 |
| R Square | 0,260 | 0,261 | 0,258 | 0,255 |
| Adjusted R Square | 0,173 | 0,186 | 0,194 | 0,202 |
| Durbin-Watson | 2,047 | 2,048 | 2,041 | 2,037 |
| F | 3,421 | 4,068 | 4,859 | 6,065 |
| Constant | 85,354 | 84,601 | 94,738 | 91,850 |
| Constant (t) | 3,323 | 3,356 | 11,252 | 18,066 |
| Constant (Sig. t) | 0,001 | 0,001 | 0,000 | 0,000 |
| INDEX 91 | 0,094 | 0,119 | | |
| INDEX 91 (t) | 0,297 | 0,430 | | |
| INDEX 91 (Sig. T) | 0,767 | 0,669 | | |
| INDEX 92 | 0,041 | | | |
| INDEX 92 (t) | 0,146 | | | |
| INDEX 92 (Sig. T) | 0,885 | | | |
| INDEX 93 | -0,130 | -0,109 | -0,087 | |
| INDEX 93 (t) | -0,498 | -0,527 | -0,432 | |
| INDEX 93 (Sig. T) | 0,620 | 0,600 | 0,667 | |
| INDEX 94 | -1,076 | -1,078 | -1,078 | -1,140 |
| INDEX 94 (t) | -3,458 | -3,493 | -3,507 | -4,270 |
| INDEX 94 (Sig. T) | 0,001 | 0,001 | 0,001 | 0,000 |

| | | | | |
|-------------------|--------|--------|--------|--------|
| INDEX 95 | 1,651 | 1,653 | 1,665 | 1,636 |
| INDEX 95 (t) | 3,797 | 3,832 | 3,902 | 3,891 |
| INDEX 95 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 96 | -1,652 | -1,653 | -1,682 | -1,607 |
| INDEX 96 (t) | -3,241 | -3,265 | -3,404 | -3,505 |
| INDEX 96 (Sig. T) | 0,002 | 0,002 | 0,001 | 0,001 |
| INDEX 97 | 1,065 | 1,059 | 1,081 | 1,038 |
| INDEX 97 (t) | 2,662 | 2,676 | 2,750 | 2,756 |
| INDEX 97 (Sig. T) | 0,010 | 0,009 | 0,008 | 0,007 |

The Table A2-2-4 shows that model #4 in this case appears the best one, too: in the model, the share of output of non-government industrial enterprises in the overall volume of industrial output is determined by the indices of industrial output of 1994, 1995, 1996, 1997, while both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1997 index being the least significant - 0.7%).

Let us then built regressions of the share of output of industrial enterprises of the non-government sector in 1998 on the dynamics of the index of industrial output over 1991-98. The results are given in Table A-2-2-5.

TABLE A-2-2-5.

| Index | 1 | 2 | 3 | 4 | 5 |
|-------------------|---------|---------|---------|--------|--------|
| R | 0,486 | 0,486 | 0,486 | 0,484 | 0,481 |
| R Square | 0,237 | 0,237 | 0,236 | 0,235 | 0,232 |
| Adjusted R Square | 0,148 | 0,160 | 0,172 | 0,182 | 0,189 |
| Durbin-Watson | 2,285 | 2,284 | 2,297 | 2,318 | 2,292 |
| F | 2,673 | 3,100 | 3,660 | 4,417 | 5,499 |
| Sig. F | 0,013 | 0,007 | 0,003 | 0,001 | 0,001 |
| Constant | 103,242 | 103,263 | 102,901 | 92,937 | 88,851 |
| Constant (t) | 3,592 | 3,624 | 3,645 | 9,836 | 15,517 |
| Constant (Sig. t) | 0,001 | 0,001 | 0,001 | 0,000 | 0,000 |
| INDEX 91 | -0,147 | -0,147 | -0,118 | | |
| INDEX 91 (t) | -0,414 | -0,417 | -0,375 | | |
| INDEX 91 (Sig. T) | 0,680 | 0,678 | 0,709 | | |
| INDEX 92 | 0,060 | 0,059 | | | |
| INDEX 92 (t) | 0,180 | 0,188 | | | |
| INDEX 92 (Sig. T) | 0,858 | 0,852 | | | |
| INDEX 93 | -0,131 | -0,130 | -0,099 | -0,122 | |
| INDEX 93 (t) | -0,434 | -0,454 | -0,424 | -0,545 | |
| INDEX 93 (Sig. T) | 0,666 | 0,651 | 0,673 | 0,587 | |
| INDEX 94 | -1,011 | -1,010 | -1,009 | -1,001 | -1,099 |
| INDEX 94 (t) | -2,912 | -2,954 | -2,971 | -2,972 | -3,867 |
| INDEX 94 (Sig. T) | 0,005 | 0,004 | 0,004 | 0,004 | 0,000 |
| INDEX 95 | 1,771 | 1,771 | 1,769 | 1,751 | 1,736 |
| INDEX 95 (t) | 3,854 | 3,882 | 3,906 | 3,911 | 3,904 |
| INDEX 95 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 96 | -1,955 | -1,956 | -1,952 | -1,920 | -1,834 |
| INDEX 96 (t) | -3,436 | -3,477 | -3,496 | -3,501 | -3,509 |
| INDEX 96 (Sig. T) | 0,001 | 0,001 | 0,001 | 0,001 | 0,001 |
| INDEX 97 | 1,219 | 1,226 | 1,226 | 1,209 | 1,152 |
| INDEX 97 (t) | 1,763 | 2,665 | 2,684 | 2,676 | 2,634 |
| INDEX 97 (Sig. T) | 0,082 | 0,010 | 0,009 | 0,009 | 0,010 |
| INDEX 98 | 0,066 | | | | |
| INDEX 98 (t) | 0,013 | | | | |
| INDEX 98 (Sig. T) | 0,989 | | | | |

The Table A2-2-5 shows that in this case it is model # 5 that appears the best: similar to the one of 1997, under the model, the index concerned is determined by indices of industrial output of 1994, 1995, 1996 and 1997, while both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1997 index being the least significant - 1.0 %). However, a high value of the Darbin-Watson statistics proves the existence of

autocorrelation in the residuals of the model built. That is why let us adjust the model using the Cochrane-Orcutt transformation. The respective results are given in Table A2-2-6.

TABLE A2-2-6.

| Index | 1 | 2 | 3 | 4 | 5 |
|-------------------|--------|--------|--------|--------|--------|
| R | 0,499 | 0,497 | 0,496 | 0,491 | 0,482 |
| R Square | 0,249 | 0,247 | 0,246 | 0,241 | 0,232 |
| Adjusted R Square | 0,148 | 0,159 | 0,170 | 0,176 | 0,178 |
| Durbin-Watson | 2,000 | 2,003 | 2,002 | 2,009 | 2,005 |
| F | 2,774 | 3,189 | 3,755 | 4,447 | 5,374 |
| Constant | 91,660 | 92,742 | 96,543 | 95,339 | 89,255 |
| Constant (t) | 3,273 | 3,350 | 10,349 | 10,411 | 16,046 |
| Constant (Sig. t) | 0,002 | 0,001 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | 0,086 | 0,046 | | | |
| INDEX 91 (t) | 0,250 | 0,150 | | | |
| INDEX 91 (Sig. T) | 0,803 | 0,882 | | | |
| INDEX 92 | -0,073 | | | | |
| INDEX 92 (t) | -0,225 | | | | |
| INDEX 92 (Sig. T) | 0,823 | | | | |
| INDEX 93 | -0,168 | -0,206 | -0,196 | -0,182 | |
| INDEX 93 (t) | -0,569 | -0,905 | -0,891 | -0,828 | |
| INDEX 93 (Sig. T) | 0,571 | 0,369 | 0,376 | 0,411 | |
| INDEX 94 | -1,040 | -1,040 | -1,038 | -1,009 | -1,138 |
| INDEX 94 (t) | -3,035 | -3,056 | -3,069 | -3,023 | -3,920 |
| INDEX 94 (Sig. T) | 0,003 | 0,003 | 0,003 | 0,003 | 0,000 |
| INDEX 95 | 1,786 | 1,787 | 1,791 | 1,773 | 1,721 |
| INDEX 95 (t) | 3,767 | 3,796 | 3,850 | 3,835 | 3,763 |
| INDEX 95 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 96 | -1,734 | -1,749 | -1,768 | -1,802 | -1,657 |
| INDEX 96 (t) | -3,115 | -3,166 | -3,278 | -3,355 | -3,296 |
| INDEX 96 (Sig. T) | 0,003 | 0,002 | 0,002 | 0,001 | 0,002 |
| INDEX 97 | 0,851 | 0,838 | 0,866 | 1,117 | 1,030 |
| INDEX 97 (t) | 1,116 | 1,305 | 1,388 | 2,608 | 2,489 |
| INDEX 97 (Sig. T) | 0,200 | 0,196 | 0,170 | 0,011 | 0,015 |
| INDEX 98 | 0,232 | 0,253 | 0,234 | | |
| INDEX 98 (t) | 0,492 | 0,564 | 0,535 | | |
| INDEX 98 (Sig. T) | 0,624 | 0,574 | 0,595 | | |

The Table A2-2-6 shows that in this case it is model # 5 that appears the best: similar to the one of 1997, under the model, the index concerned is determined by indices of industrial output of 1994, 1995, 1996 and 1997, while both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1997 index being the least significant - 1.5 %).

The proportion of employees at industrial enterprises of the non-government sector in the overall number of employees at industrial enterprises.

Let us consider now regression dependencies of the share of employees at industrial enterprises of the non-government sector in 1997 on the dynamics of the index of industrial output over 1991-97. The results are given in Table A2-2-7.

TABLE A2-2-7.

| Index | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|-------------------|---------|---------|---------|---------|---------|---------|--------|
| R | 0,307 | 0,296 | 0,285 | 0,262 | 0,207 | 0,180 | 0,087 |
| R Square | 0,094 | 0,088 | 0,081 | 0,069 | 0,043 | 0,032 | 0,008 |
| Adjusted R Square | 0,004 | 0,011 | 0,018 | 0,018 | 0,004 | 0,007 | -0,006 |
| Durbin-Watson | 2,351 | 2,342 | 2,325 | 2,316 | 2,298 | 2,299 | 2,329 |
| F | 1,040 | 1,140 | 1,275 | 1,348 | 1,105 | 1,260 | 0,578 |
| Sig. F | 0,412 | 0,348 | 0,284 | 0,260 | 0,352 | 0,290 | 0,450 |
| Constant | 112,591 | 109,130 | 108,892 | 106,086 | 106,938 | 107,712 | 78,235 |
| Constant (t) | 4,634 | 4,605 | 4,611 | 4,526 | 4,532 | 4,574 | 7,574 |
| Constant (Sig. t) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | -0,499 | -0,481 | -0,474 | -0,434 | -0,450 | -0,405 | |

| Index | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|-------------------|--------|--------|--------|--------|--------|--------|-------|
| INDEX 91 (t) | -1,662 | -1,613 | -1,596 | -1,475 | -1,522 | -1,391 | |
| INDEX 91 (Sig. T) | 0,101 | 0,111 | 0,115 | 0,144 | 0,132 | 0,168 | |
| INDEX 92 | 0,477 | 0,478 | 0,369 | 0,373 | 0,358 | 0,219 | 0,097 |
| INDEX 92 (t) | 1,780 | 1,791 | 1,692 | 1,710 | 1,634 | 1,417 | 0,760 |
| INDEX 92 (Sig. T) | 0,079 | 0,078 | 0,095 | 0,091 | 0,107 | 0,161 | 0,450 |
| INDEX 93 | -0,198 | -0,171 | | | | | |
| INDEX 93 (t) | -0,812 | -0,713 | | | | | |
| INDEX 93 (Sig. T) | 0,419 | 0,478 | | | | | |
| INDEX 94 | -0,406 | -0,384 | -0,476 | -0,425 | -0,114 | | |
| INDEX 94 (t) | -1,393 | -1,329 | -1,848 | -1,685 | -0,896 | | |
| INDEX 94 (Sig. T) | 0,168 | 0,188 | 0,069 | 0,096 | 0,373 | | |
| INDEX 95 | 0,655 | 0,622 | 0,617 | 0,299 | | | |
| INDEX 95 (t) | 1,685 | 1,617 | 1,610 | 1,425 | | | |
| INDEX 95 (Sig. T) | 0,096 | 0,110 | 0,112 | 0,158 | | | |
| INDEX 96 | -0,569 | -0,294 | -0,265 | | | | |
| INDEX 96 (t) | -1,187 | -1,083 | -0,992 | | | | |
| INDEX 96 (Sig. T) | 0,239 | 0,282 | 0,325 | | | | |
| INDEX 97 | 0,273 | | | | | | |
| INDEX 97 (t) | 0,697 | | | | | | |
| INDEX 97 (Sig. T) | 0,488 | | | | | | |

Table A2-2-7 shows that the best model in this case is model #4. However both the regression itself and its coefficients under the indices are not significant. In addition, a high value of Durbin-Watson statistics proves the existence of autocorrelation in residuals of the model built. That is why let us adjust the model using the Cochran- Orcutte transformation. The respective results are provided in Table A2-2-8.

TABLE A2-2-8.

| Index | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|-------------------|---------|---------|---------|---------|--------|--------|--------|
| R | 0,299 | 0,286 | 0,271 | 0,250 | 0,207 | 0,169 | 0,073 |
| R Square | 0,090 | 0,082 | 0,074 | 0,063 | 0,043 | 0,029 | 0,005 |
| Adjusted R Square | -0,018 | -0,011 | -0,006 | -0,003 | -0,010 | -0,011 | -0,022 |
| Durbin-Watson | 2,098 | 2,096 | 2,079 | 2,079 | 2,080 | 2,070 | 2,067 |
| F | 0,955 | 1,028 | 1,111 | 1,186 | 1,074 | 1,076 | 0,396 |
| Constant | 110,138 | 106,297 | 105,086 | 101,996 | 77,200 | 87,058 | 83,661 |
| Constant (t) | 4,645 | 4,606 | 4,569 | 4,487 | 7,370 | 19,357 | 22,481 |
| Constant (Sig. t) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | -0,434 | -0,412 | -0,392 | -0,354 | | | |
| INDEX 91 (t) | -1,483 | -1,417 | -1,358 | -1,239 | | | |
| INDEX 91 (Sig. T) | 0,143 | 0,161 | 0,179 | 0,219 | | | |
| INDEX 92 | 0,445 | 0,437 | 0,314 | 0,323 | 0,185 | | |
| INDEX 92 (t) | 1,694 | 1,670 | 1,499 | 1,545 | 1,041 | | |
| INDEX 92 (Sig. T) | 0,095 | 0,099 | 0,138 | 0,127 | 0,301 | | |
| INDEX 93 | -0,228 | -0,187 | | | | | |
| INDEX 93 (t) | -0,946 | -0,800 | | | | | |
| INDEX 93 (Sig. T) | 0,347 | 0,426 | | | | | |
| INDEX 94 | -0,386 | -0,368 | -0,464 | -0,419 | -0,412 | -0,308 | |
| INDEX 94 (t) | -1,344 | -1,291 | -1,793 | -1,652 | -1,621 | -1,321 | |
| INDEX 94 (Sig. T) | 0,183 | 0,201 | 0,077 | 0,103 | 0,109 | 0,191 | |
| INDEX 95 | 0,658 | 0,622 | 0,598 | 0,296 | 0,322 | 0,312 | 0,047 |
| INDEX 95 (t) | 1,646 | 1,571 | 1,517 | 1,383 | 1,504 | 1,460 | 0,629 |
| INDEX 95 (Sig. T) | 0,104 | 0,121 | 0,134 | 0,171 | 0,136 | 0,149 | 0,531 |
| INDEX 96 | -0,580 | -0,302 | -0,253 | | | | |
| INDEX 96 (t) | -1,233 | -1,058 | -0,910 | | | | |
| INDEX 96 (Sig. T) | 0,222 | 0,294 | 0,366 | | | | |
| INDEX 97 | 0,275 | | | | | | |
| INDEX 97 (t) | 0,742 | | | | | | |
| INDEX 97 (Sig. T) | 0,460 | | | | | | |

As it can be seen from the Table A2-2-8, in this case the results are not significant, too.

Let us built regressions of the share of employees at industrial enterprises of the non-government sector in 1998 on the dynamics of the index of industrial output over 1991-98. The results are given in Table A2-2-9.

TABLE A2-2-9.

| Index | 1 | 2 | 3 | 4 | 5 |
|-------------------|--------|--------|--------|--------|--------|
| R | 0,489 | 0,489 | 0,489 | 0,488 | 0,474 |
| R Square | 0,239 | 0,239 | 0,239 | 0,238 | 0,225 |
| Adjusted R Square | 0,151 | 0,163 | 0,175 | 0,185 | 0,182 |
| Durbin-Watson | 2,452 | 2,456 | 2,459 | 2,477 | 2,571 |
| F | 2,714 | 3,146 | 3,721 | 4,503 | 5,291 |
| Sig. F | 0,012 | 0,006 | 0,003 | 0,001 | 0,001 |
| Constant | 82,632 | 80,581 | 81,361 | 83,574 | 85,106 |
| Constant (t) | 3,070 | 6,262 | 8,916 | 15,044 | 15,770 |
| Constant (Sig. t) | 0,003 | ,000 | 0,000 | 0,000 | 0,000 |
| INDEX 91 | -0,029 | | | | |
| INDEX 91 (t) | -0,087 | | | | |
| INDEX 91 (Sig. T) | 0,931 | | | | |
| INDEX 92 | 0,036 | 0,025 | | | |
| INDEX 92 (t) | 0,114 | 0,087 | | | |
| INDEX 92 (Sig. T) | 0,910 | 0,931 | | | |
| INDEX 93 | 0,048 | 0,050 | 0,065 | | |
| INDEX 93 (t) | 0,172 | 0,177 | 0,307 | | |
| INDEX 93 (Sig. T) | 0,864 | 0,860 | 0,760 | | |
| INDEX 94 | -0,956 | -0,954 | -0,953 | -0,902 | -0,961 |
| INDEX 94 (t) | -2,940 | -2,962 | -2,982 | -3,315 | -3,588 |
| INDEX 94 (Sig. T) | 0,004 | 0,004 | 0,004 | 0,001 | 0,001 |
| INDEX 95 | 1,733 | 1,729 | 1,730 | 1,738 | 1,745 |
| INDEX 95 (t) | 4,027 | 4,068 | 4,100 | 4,155 | 4,164 |
| INDEX 95 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 96 | -1,813 | -1,806 | -1,809 | -1,854 | -1,795 |
| INDEX 96 (t) | -3,403 | -3,453 | -3,491 | -3,750 | -3,645 |
| INDEX 96 (Sig. T) | 0,001 | 0,001 | 0,001 | 0,000 | 0,000 |
| INDEX 97 | 1,414 | 1,411 | 1,428 | 1,446 | ,952 |
| INDEX 97 (t) | 2,185 | 2,199 | 2,350 | 2,407 | 2,311 |
| INDEX 97 (Sig. T) | 0,032 | ,031 | 0,022 | 0,019 | 0,024 |
| INDEX 98 | -0,474 | -0,474 | -0,488 | -0,477 | |
| INDEX 98 (t) | -1,019 | -1,026 | -1,143 | -1,128 | |
| INDEX 98 (Sig. T) | 0,312 | ,308 | 0,257 | 0,263 | |

The Table A2-2-9 shows that its is model # 5 that appears the best in this case. Similar to 1997, in this model the index concerned is determined by indices of industrial output of 1994, 1995, 1996 and 1997, while both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1997 index being the least significant - 2.4 %). However, a high value of the Darbin-Watson statistics proves the existence of autocorrelation in residuals of the model built. That is why let us adjust the model using the Cochrane-Orcutte transformation. The respective results are provided in Table A2-2-10.

TABLE A2-2-10.

| Index | 1 | 2 | 3 | 4 | 5 |
|-------------------|--------|--------|--------|--------|--------|
| R | 0,536 | 0,536 | 0,538 | 0,531 | 0,528 |
| R Square | 0,288 | 0,288 | 0,289 | 0,282 | 0,279 |
| Adjusted R Square | 0,192 | 0,204 | 0,217 | 0,220 | 0,228 |
| Durbin-Watson | 2,064 | 2,063 | 2,060 | 2,056 | 2,056 |
| F | 3,385 | 3,925 | 4,678 | 5,490 | 6,854 |
| Constant | 76,283 | 76,195 | 75,426 | 88,094 | 84,969 |
| Constant (t) | 3,035 | 3,080 | 3,104 | 7,949 | 17,317 |
| Constant (Sig. t) | 0,003 | 0,003 | 0,003 | 0,000 | 0,000 |
| INDEX 91 | 0,171 | 0,172 | 0,182 | | |
| INDEX 91 (t) | 0,550 | 0,564 | 0,604 | | |
| INDEX 91 (Sig. T) | 0,584 | 0,575 | 0,548 | | |

| Index | 1 | 2 | 3 | 4 | 5 |
|-------------------|--------|--------|--------|--------|--------|
| INDEX 92 | -0,129 | -0,134 | -0,133 | -0,059 | |
| INDEX 92 (t) | -0,446 | -0,607 | -0,611 | -0,315 | |
| INDEX 92 (Sig. T) | 0,657 | 0,546 | 0,543 | 0,754 | |
| INDEX 93 | -0,007 | | | | |
| INDEX 93 (t) | -0,028 | | | | |
| INDEX 93 (Sig. T) | 0,978 | | | | |
| INDEX 94 | -1,013 | -1,015 | -1,032 | -1,038 | -1,061 |
| INDEX 94 (t) | -3,278 | -3,496 | -3,717 | -3,750 | -4,041 |
| INDEX 94 (Sig. T) | 0,002 | 0,001 | 0,000 | 0,000 | 0,000 |
| INDEX 95 | 1,937 | 1,935 | 1,942 | 1,949 | 1,926 |
| INDEX 95 (t) | 4,491 | 4,560 | 4,616 | 4,655 | 4,661 |
| INDEX 95 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 96 | -1,844 | -1,840 | -1,824 | -1,864 | -1,829 |
| INDEX 96 (t) | -3,686 | -3,894 | -3,972 | -4,114 | -4,167 |
| INDEX 96 (Sig. T) | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 |
| INDEX 97 | 0,997 | 0,997 | 0,908 | 0,926 | 0,908 |
| INDEX 97 (t) | 1,706 | 1,721 | 2,488 | 2,541 | 2,533 |
| INDEX 97 (Sig. T) | 0,093 | 0,090 | 0,015 | 0,013 | 0,014 |
| INDEX 98 | -0,077 | -0,080 | | | |
| INDEX 98 (t) | -0,184 | -0,200 | | | |
| INDEX 98 (Sig. T) | 0,855 | 0,842 | | | |

The Table A2-2-10 shows that it is model # 5 that appears the best in this case. In this model, the share of employees at non-government industrial enterprises in the overall number of employees in the industrial sector is determined by indices of industrial output of 1994, 1995, 1996 and 1997, while both the regression itself and the regression coefficients under such indices are highly significant (with the coefficient under the 1997 index being the least significant - 1.4 %).

A.5.2.3. Privatization and voting.

The interdependence between the share of industrial enterprises of the non-government sector in the overall number of industrial enterprises and elections outcomes.

Table A2-3-1 provides coefficients of the correlation in terms of the shares of voters for Eltsin and Zuganov.

TABLE A2-3-1. COEFFICIENTS OF THE CORRELATION FOR THE SHARE OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES AND ELECTIONS OUTCOMES.

| | 1995 | | | 1997 | | |
|---------|---------|---------|----------|---------|---------|----------|
| | Pierson | Candall | Spearman | Pierson | Candall | Spearman |
| Eltzin | -0,138 | -0,044 | -0,059 | -0,086 | 0,008 | 0,067 |
| Zuganov | 0,128 | 0,049 | 0,023 | 0,087 | 0,000 | -0,003 |

The data provided in the Table show the existence of a minor negative correlation between the share of non-government industrial enterprises and the share of votes for Eltsin and the respective positive correlation with the share of votes for Zuganov. At the same time, the correlations available by the data for 1995 are somewhat more distinct compared with the ones related to 1997 data. Tables A2-3-2 and A2-3-3 provide results of the regression analysis.

TABLE A2-3-2. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES IN 1995 AND THE ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,138 | 0,019 | 0,006 | 11,8363 | 1,500 | 0,224 | 1,176 |
| Zuganov | 0,128 | 0,016 | 0,004 | 12,1581 | 1,277 | 0,262 | 1,145 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 72,482 | 17,074 | | 4,245 | 0,000 | |
| | ENTER95 | -0,234 | 0,191 | -0,138 | -1,225 | 0,224 | |
| Zuganov | (Constant) | 22,559 | 17,538 | | 1,286 | 0,202 | |
| | ENTER95 | 0,222 | 0,196 | 0,128 | 1,130 | 0,262 | |

TABLE A2-3-3. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES IN 1997 AND THE ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,086 | 0,007 | -0,006 | 11,9068 | 0,573 | 0,451 | 1,226 |
| Zuganov | 0,087 | 0,007 | -0,005 | 12,2125 | 0,581 | 0,448 | 1,187 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 70,780 | 25,331 | | 2,794 | 0,007 | |
| | ENTER 97 | -0,206 | 0,273 | -0,086 | -0,757 | 0,451 | |
| Zuganov | (Constant) | 22,542 | 25,981 | | 0,868 | 0,388 | |
| | ENTER 97 | 0,213 | 0,280 | 0,087 | 0,762 | 0,448 | |

The poor values of the Darbin-Watson Statistics testifying the existence of an autocorrelation in residuals require an adjustment of the results using the Darbin-Watson transformation. The respective results are provided in Tables A2-3-4 and A2-3-5.

TABLE A2-3-4. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES IN 1995 AND THE ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,242 | 0,059 | 0,034 | 10,817 | 4,675 | 0,034 | 1,849 |
| Zuganov | 0,230 | 0,053 | 0,028 | 11,018 | 4,198 | 0,044 | 1,860 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 82,449 | 14,523 | | 5,677 | 0,000 | |
| | ENTER95 | -0,348 | 0,161 | -0,242 | -2,162 | 0,034 | |
| Zuganov | (Constant) | 12,743 | 14,735 | | 0,865 | 0,390 | |
| | ENTER95 | 0,335 | 0,163 | 0,230 | 2,049 | 0,044 | |

TABLE A2-3-5. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL NUMBER OF INDUSTRIAL ENTERPRISES IN 1997 AND THE ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,122 | 0,015 | -0,011 | 11,055 | 1,131 | 0,291 | 1,895 |
| Zuganov | 0,123 | 0,015 | -0,011 | 11,227 | 1,152 | 0,287 | 1,897 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 75,449 | 22,719 | | 3,321 | 0,001 | |
| | ENTER 97 | -0,259 | 0,244 | -0,122 | -1,064 | 0,291 | |
| Zuganov | (Constant) | 18,052 | 22,967 | | 0,786 | 0,434 | |
| | ENTER 97 | 0,264 | 0,246 | 0,123 | 1,073 | 0,287 | |

Thus the elimination of autocorrelation in residuals leads to the statistical significance of the results based on the data of 1995, while the ones on the data of 1997 remain statistically insignificant.

The correlation between the share of output of industrial enterprises of the non-government sector in the overall volume of industrial output and the elections outcome.

Table A2-3-6 provides the coefficient of the correlation for the shares of those voting for Eltzin and Zuganov.

TABLE A2-3-6. COEFFICIENTS OF THE CORRELATION BETWEEN THE SHARE OF OUTPUT OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL VOLUME OF INDUSTRIAL OUTPUT AND THE ELECTIONS OUTCOME.

| | 1995 | | | 1997 | | |
|----------------|---------|---------|----------|---------|---------|----------|
| | Pierson | Candall | Spearman | Pierson | Candall | Spearman |
| Eltzin | -0,303 | -0,111 | -0,151 | -0,286 | -0,103 | -0,133 |
| Zuganov | 0,272 | 0,107 | 0,138 | 0,261 | 0,094 | 0,129 |

Contrast to the prior case, the data in the Table show the existence of a more significant negative correlation between the share of the non-government industrial enterprises and the share of those who voted for Eltzin, while there is a positive correlation with the share of those who voted

for Zuganov. At the same time, similar to the prior case, the correlations noted based on the data of 1995 are somewhat clearer than the correlations found on the basis of the 1997 data. Tables A2-3-7 and A2-3-8 provide results of the regression analysis.

TABLE A2-3-7. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF OUTPUT OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL VOLUME OF INDUSTRIAL OUTPUT IN 1995 AND ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,303 | 0,092 | 0,080 | 11,3878 | 7,805 | 0,007 | 1,198 |
| Zuganov | 0,272 | 0,074 | 0,062 | 11,7975 | 6,136 | 0,015 | 1,158 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 76,523 | 9,000 | | 8,502 | 0,000 | |
| | PROD95 | -0,292 | 0,104 | -0,303 | -2,794 | 0,007 | |
| Zuganov | (Constant) | 19,457 | 9,324 | | 2,087 | 0,040 | |
| | PROD95 | 0,268 | 0,108 | 0,272 | 2,477 | 0,015 | |

TABLE A2-3-8. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF OUTPUT OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL VOLUME OF INDUSTRIAL OUTPUT IN 1995 AND ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,286 | 0,082 | 0,070 | 11,4508 | 6,874 | 0,011 | 1,199 |
| Zuganov | 0,261 | 0,068 | 0,056 | 11,8335 | 5,631 | 0,020 | 1,145 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 74,250 | 8,722 | | 8,513 | 0,000 | |
| | PROD97 | -0,264 | 0,101 | -0,286 | -2,622 | 0,011 | |
| Zuganov | (Constant) | 21,167 | 9,013 | | 2,348 | 0,021 | |
| | PROD97 | 0,247 | 0,104 | 0,261 | 2,373 | 0,020 | |

Notably, contrast to the prior case, there are significant values of the coefficients of residuals correlation and regression coefficients. However, similar to the prior case, the Durbin-Watson statistics remains poor, which compels to adjust the results taking into account the Cochrane-Orcutt transformation. The respective results are given in Tables A2-3-9 and A2-3-10.

TABLE A2-3-9. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF OUTPUT OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL VOLUME OF INDUSTRIAL OUTPUT IN 1995 AND ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,342 | 0,117 | 0,093 | 10,469 | 9,903 | 0,002 | 1,911 |
| Zuganov | 0,316 | 0,100 | 0,076 | 10,734 | 8,332 | 0,005 | 1,918 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 75,687 | 7,960 | | 9,509 | 0,000 | |
| | PROD95 | -0,285 | 0,091 | -0,342 | -3,147 | 0,002 | |
| Zuganov | (Constant) | 19,876 | 8,130 | | 2,445 | 0,017 | |
| | PROD95 | 0,267 | 0,092 | 0,316 | 2,887 | 0,005 | |

TABLE A2-3-10. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF OUTPUT OF INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL VOLUME OF INDUSTRIAL OUTPUT IN 1995 AND ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,326 | 0,106 | 0,082 | 10,531 | 8,907 | 0,004 | 1,926 |
| Zuganov | 0,317 | 0,100 | 0,076 | 10,733 | 8,369 | 0,005 | 1,929 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 73,454 | 7,644 | | 9,609 | 0,000 | |
| | PROD97 | -0,258 | 0,086 | -0,326 | -2,985 | 0,004 | |
| Zuganov | (Constant) | 20,983 | 7,749 | | 2,708 | 0,008 | |
| | PROD97 | 0,253 | 0,087 | 0,317 | 2,893 | 0,006 | |

Hence, the elimination of autocorrelation in residuals leads to the general statistical significance of all the results.

The correlation between the share of employees at industrial enterprises of the non-government sector in the overall number of employees in the sector and the elections outcome.

Table A2-3-11 presents the coefficients of the correlation for the shares of votes for Eltzin and Zuganov.

TABLE A2-3-11. COEFFICIENTS OF THE CORRELATION BETWEEN THE SHARE OF EMPLOYEES AT INDUSTRIAL ENTERPRISES OF THE NON-GOVERNMENT SECTOR IN THE OVERALL NUMBER OF EMPLOYEES IN THE SECTOR AND THE ELECTIONS OUTCOME.

| | 1995 | | | 1997 | | |
|----------------|---------|---------|----------|---------|---------|----------|
| | Pierson | Candall | Spearman | Pierson | Candall | Spearman |
| Eltzin | -0,382 | -0,204 | -0,301 | -0,254 | -0,131 | -0,195 |
| Zuganov | 0,355 | 0,193 | 0,283 | 0,232 | 0,120 | 0,180 |

The data provided in the Table show the existence of a negative correlation between the share of employees at non-government industrial enterprises and the share of votes for Eltzin, while the respective correlation appears positive for Zuganov.

At the same time, similar to the data above, the correlations found based on the 1995 data are more evident compared with the correlations found on the 1997 data. Table A2-3-12 and A2-3-13 provides results of the regression analysis.

TABLE A2-3-12. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF EMPLOYEES AT THE NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN THE OVERALL NUMBER OF EMPLOYEES IN 1995 AND THE ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,382 | 0,146 | 0,135 | 11,0443 | 13,162 | 0,001 | 1,176 |
| Zuganov | 0,355 | 0,126 | 0,115 | 11,4599 | 11,106 | 0,001 | 1,145 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 84,216 | 9,066 | | 9,289 | 0,000 | |
| | EMPLOY95 | -0,400 | 0,110 | -0,382 | -3,628 | 0,001 | |
| Zuganov | (Constant) | 11,264 | 9,408 | | 1,197 | 0,235 | |
| | EMPLOY95 | 0,381 | 0,114 | 0,355 | 3,333 | 0,001 | |

TABLE A2-3-13. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF EMPLOYEES AT THE NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN THE OVERALL NUMBER OF EMPLOYEES IN 1997 AND THE ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | ,254 | ,064 | ,052 | 11,5599 | 5,299 | ,024 | 1,207 |
| Zuganov | ,232 | ,054 | ,042 | 11,9231 | 4,393 | ,039 | 1,153 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 77,703 | 11,400 | | 6,816 | ,000 | |
| | EMPLOY97 | -,305 | ,132 | -,254 | -2,302 | ,024 | |
| Zuganov | (Constant) | 17,837 | 11,758 | | 1,517 | ,133 | |
| | EMPLOY97 | ,286 | ,137 | ,232 | 2,096 | ,039 | |

Note that in this case there also are significant values of coefficients of the correlation and regression coefficients both on the 1995 data and 1997 data. However, the Durbin-Watson statistics remains poor, which compels us to adjust the results taking into account the Cochrane-Orcutt transformation. The respective results are given in Tables A2-3-14 and A2-3-15.

TABLE A2-3-14. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF EMPLOYEES AT THE NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN THE OVERALL NUMBER OF EMPLOYEES IN 1995 AND THE ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,428 | 0,182 | 0,160 | 10,071 | 16,772 | 0,000 | 1,880 |
| Zuganov | 0,401 | 0,161 | 0,139 | 10,365 | 14,384 | 0,000 | 1,894 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 82,045 | 7,720 | | 10,627 | 0,000 | |
| | EMPLOY95 | -0,377 | 0,092 | -0,428 | -4,095 | 0,000 | |
| Zuganov | (Constant) | 13,528 | 7,917 | | 1,709 | 0,092 | |
| | EMPLOY95 | 0,357 | 0,094 | 0,401 | 3,793 | 0,000 | |

TABLE A2-3-15. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF EMPLOYEES AT THE NON-GOVERNMENT INDUSTRIAL ENTERPRISES IN THE OVERALL NUMBER OF EMPLOYEES IN 1997 AND THE ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|-------|--------|---------------|
| Eltzin | 0,294 | 0,086 | 0,062 | 10,646 | 7,089 | 0,009 | 1,928 |
| Zuganov | 0,290 | 0,084 | 0,060 | 10,829 | 6,888 | 0,011 | 1,931 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 76,828 | 9,753 | | 7,878 | 0,000 | |
| | EMPLOY97 | -0,298 | 0,112 | -0,294 | 2,663 | 0,009 | |
| Zuganov | (Constant) | 17,335 | 9,844 | | 1,761 | 0,082 | |
| | EMPLOY97 | 0,296 | 0,113 | 0,290 | 2,624 | 0,011 | |

Thus the elimination of autocorrelation in residuals entails statistical significance of the results.

The correlation between the share of non-government housing in the overall volume of housing fund and the elections outcome.

Table A2-3-16 presents coefficients of the correlation for the shares of votes for Eltzin and Zuganov.

The data of the Table show the existence of rather a strong negative correlation between the share of non-government housing and the share of votes for Eltzin, while the correlation with the votes for Zuganov remains positive. At the same time, the correlations found using the 1995 data still are slightly clearer when compared with correlations found using the 19997 data. Tables A2-3-17 and A2-3-18 contain results of the regression analysis.

TABLE A2-3-16. COEFFICIENTS OF THE CORRELATION BETWEEN THE SHARE OF NON-GOVERNMENT HOUSING IN THE OVERALL VOLUME OF HOUSING FUND AND THE ELECTIONS OUTCOME.

| | 1995 | | | 1997 | | |
|--------|---------|---------|----------|---------|---------|----------|
| | Pierson | Candall | Spearman | Pierson | Candall | Spearman |
| Eltzin | -0,479 | -0,383 | -0,538 | -0,471 | -0,404 | -0,565 |

| | | | | | | |
|----------------|-------|-------|-------|-------|-------|-------|
| Zuganov | 0,525 | 0,409 | 0,569 | 0,511 | 0,433 | 0,595 |
|----------------|-------|-------|-------|-------|-------|-------|

TABLE A2-3-17. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF NON-GOVERNMENT HOUSING IN THE TOTAL VOLUME OF THE HOUSING FUND IN 1995 AND THE ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,479 | 0,229 | 0,219 | 10,4915 | 22,913 | 0,000 | 1,323 |
| Zuganov | 0,525 | 0,275 | 0,266 | 10,4348 | 29,267 | 0,000 | 1,357 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 74,963 | 5,015 | | 14,949 | 0,000 | |
| | HOUSE95 | -0,383 | 0,080 | -0,479 | -4,787 | 0,000 | |
| Zuganov | (Constant) | 16,096 | 4,987 | | 3,227 | 0,002 | |
| | HOUSE95 | 0,431 | 0,080 | 0,525 | 5,410 | 0,000 | |

TABLE A2-3-18. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF NON-GOVERNMENT HOUSING IN THE TOTAL VOLUME OF THE HOUSING FUND IN 1997 AND THE ELECTIONS OUTCOME.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,471 | 0,222 | 0,212 | 10,5416 | 21,966 | 0,000 | 1,446 |
| Zuganov | 0,511 | 0,261 | 0,252 | 10,5361 | 27,234 | 0,000 | 1,486 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 74,906 | 5,105 | | 14,673 | 0,000 | |
| | HOUSE97 | -0,377 | 0,081 | -0,471 | -4,687 | 0,000 | |
| Zuganov | (Constant) | 16,420 | 5,102 | | 3,218 | 0,002 | |
| | HOUSE97 | 0,420 | 0,080 | 0,511 | 5,219 | 0,000 | |

Again, in this case the values of both coefficients of the correlation and regression coefficients appear significant both for the 1995 data and 1997 data. However the Durbin-Watson statistics remains poor, though better than in all other cases (especially in terms of the 1997 data). That is why we are compelled to adjust that taking into account the Cochrane-Orcutt transformation. The respective results are given in Tables A2-3-19 and A-2-320.

TABLE A2-3-19. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF NON-GOVERNMENT HOUSING IN THE TOTAL VOLUME OF THE HOUSING FUND IN 1995 AND THE ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,444 | 0,197 | 0,176 | 9,983 | 18,406 | 0,000 | 1,917 |
| Zuganov | 0,472 | 0,223 | 0,202 | 9,997 | 21,535 | 0,000 | 1,918 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 76,709 | 6,146 | | 12,480 | 0,000 | |
| | HOUSE95 | -0,414 | 0,096 | -0,444 | -4,290 | 0,000 | |
| Zuganov | (Constant) | 15,472 | 6,074 | | 2,547 | 0,013 | |
| | HOUSE95 | 0,443 | 0,095 | 0,472 | 4,641 | 0,000 | |

TABLE A2-3-20. RESULTS OF THE REGRESSION ANALYSIS FOR THE SHARE OF NON-GOVERNMENT HOUSING IN THE TOTAL VOLUME OF THE HOUSING FUND IN 1997 AND THE ELECTIONS OUTCOME WITH THE ACCOUNT FOR COCHRANE-ORCUTTE TRANSFORMATION.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | Sig. F | Durbin-Watson |
|---------|--------------|-----------------------------|-------------------|----------------------------|--------|--------|---------------|
| Eltzin | 0,404 | 0,163 | 0,141 | 10,235 | 14,625 | 0,000 | 1,892 |
| Zuganov | 0,435 | 0,189 | 0,167 | 10,279 | 17,481 | 0,000 | 1,888 |
| | Coefficients | Unstandardized Coefficients | Std. Error | Standardized Coefficients | T | Sig. T | |
| Eltzin | (Constant) | 72,715 | 5,799 | | 12,538 | 0,000 | |
| | HOUSE97 | -0,344 | 0,090 | -0,404 | -3,824 | 0,000 | |
| Zuganov | (Constant) | 19,291 | 5,786 | | 3,334 | 0,001 | |
| | HOUSE97 | 0,375 | 0,090 | 0,435 | 4,181 | 0,000 | |

Hence, in this case the elimination of autocorrelation in residuals leads to statistical significance of the respective results.

A.5.2.4. The privatization indices and the outcome of the 1st round of the 1996 presidential elections.

Let us consider an existence of regression dependencies between the outcome of the 1996 presidential elections and the level of privatization in the industrial and housing sectors in 1 year prior to the elections and in 1 year after that.

Let us characterize the level of privatization with four indices:

- the share of industrial enterprises in the total volume of industrial enterprises;
- the share of output of the non-government industrial enterprises in the overall volume of industrial output;
- the share of employees at the non-government industrial enterprises in the overall number of employees in the industrial sector;
- The share of non-government housing in the overall volume of housing fund.

Let us characterize the elections outcome with three groups of indices:

- shares of the votes for various candidates participated in the first round of the presidential elections:
 - the share of votes for Eltzin;
 - the share of votes fro Zuganov;
 - the share of votes for Lebed;
 - the share of votes for Yavlisnky;
 - the share of votes for Zhirinovsky;
 - the share of votes for Fedorov;
 - the share of votes for Gorbachev;
 - the share of votes for Bryntsalov;
 - the share of votes for Shakum;
- shares of the votes for different political forces among the participants in the 1st round of presidential elections:
 - the share of votes for communists;
 - the share of votes for national patriots;
 - the share of votes for centrists;
 - the share of votes for democrats;
 - the share of votes against all;

The dependence of the privatization indices upon elections outcome.

1. The share of industrial enterprises of the non-government sector in the overall number of industrial enterprises.

1.1. Dependence on the outcome of the 1st round of voting for various candidates.

1995.

In this case the results of voting for all the candidates, except Bryntsalov, appeared significant. The results of the regression analysis are presented in Tables A2-4-1 and A2-4-2.

TABLE A2-4-1. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|-------|
| R | 0,575 |
| R Square | 0,331 |
| Adjusted R Square | 0,254 |
| Std. Error | 6,064 |
| F- statistic | 4,325 |
| DW-statistic | 2,207 |

TABLE A2-4-2. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|--------------|--------------|------------|--------------|----------------|
| Constant | -366,366 | 143,247 | -2,558 | 0,013 |
| Eltzin | 4,497 | 1,494 | 3,010 | 0,004 |
| Zuganov | 4,707 | 1,473 | 3,194 | 0,002 |
| Lebed | 4,753 | 1,434 | 3,314 | 0,001 |
| Yavlinsky | 5,123 | 1,434 | 3,573 | 0,001 |
| Zhirinovskiy | 4,380 | 1,584 | 2,766 | 0,007 |
| Fedorov | 5,509 | 2,637 | 2,090 | 0,040 |
| Gorbachev | 6,787 | 2,656 | 2,555 | 0,013 |
| Shakum | 18,784 | 5,483 | 3,426 | 0,001 |

1997 г.

In this case, again, the results of voting for all the candidates, except Bryntsalov, appeared significant. The results of the regression analysis are presented in Tables A2-4-3 and A2-4-4.

TABLE A2-4-3. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|-------|
| R | 0,572 |
| R Square | 0,327 |
| Adjusted R Square | 0,250 |
| Std. Error | 4,282 |
| F-statistic | 4,254 |
| DW-statistic | 1,873 |

TABLE A2-4-4. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|--------------|--------------|------------|--------------|----------------|
| Constant | -290,537 | 101,149 | -2,872 | 0,005 |
| Eltzin | 3,848 | 1,055 | 3,648 | 0,001 |
| Zuganov | 3,949 | 1,040 | 3,796 | 0,000 |
| Lebed | 3,957 | 1,013 | 3,907 | 0,000 |
| Yavlinsky | 4,208 | 1,012 | 4,157 | 0,000 |
| Zhirinovskiy | 3,593 | 1,118 | 3,213 | 0,002 |
| Fedorov | 6,102 | 1,862 | 3,278 | 0,002 |
| Gorbachev | 5,164 | 1,875 | 2,753 | 0,008 |
| Shakum | 13,088 | 3,872 | 3,381 | 0,001 |

*1.2. Dependence on the results of the 1st round of voting for different political forces.***1995.**

In this case it is the results of voting for centrists and democrats that appeared significant. The results of the regression analysis are presented in Tables A2-4-5 and A2-4-6.

TABLE A2-4-5. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|-------|
| R | 0,365 |
| R Square | 0,133 |
| Adjusted R Square | 0,110 |
| Std. Error | 6,624 |
| F-statistic | 5,839 |
| DW-statistic | 1,899 |

TABLE A2-4-6. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-----------|--------------|------------|--------------|----------------|
| Constant | 90,889 | 2,887 | 31,486 | 0,000 |
| Centrists | -0,202 | 0,074 | -2,735 | 0,008 |
| Democrats | 0,639 | 0,238 | 2,684 | 0,009 |

1997.

In this case it is the results of voting for democrats only that appeared significant. The results of the regression analysis, with the account for the Cochrane- Orcutt are presented in Tables A2-4-7 and A2-4-8.

TABLE A2-4-7. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|-------|
| R | 0,261 |
| R Square | 0,068 |
| Adjusted R Square | 0,043 |
| Std. Error | 4,844 |
| F-statistic | 5,494 |
| DW-statistic | 1,970 |

TABLE A2-4-8. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-----------|--------------|------------|--------------|----------------|
| Constant | 89,471 | 1,561 | 57,305 | 0,000 |
| Democrats | 0,413 | 0,176 | 2,344 | 0,022 |

2. The share of output of industrial enterprises of the non-government sector in the total volume of industrial output.

2.1. Dependence on the outcome of the 1st round of voting for various candidates.

1995.

In this case it is the outcome of voting for Yavlinsky and Gorbachev only that appeared significant. The results of the regression analysis are presented in Tables A2-4-9 and A2-4-10.

TABLE A2-4-9. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,475 |
| R Square | 0,226 |
| Adjusted R Square | 0,206 |
| Std. Error | 10,998 |
| F-statistic | 11,102 |
| DW-statistic | 2,138 |

TABLE A2-4-10. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-----------|--------------|------------|--------------|----------------|
| Constant | 85,404 | 3,140 | 27,201 | ,000 |
| Yavlinsky | 0,990 | 0,433 | 2,287 | ,025 |
| Gorbachev | -13,260 | 2,831 | -4,684 | ,000 |

1997.

In this case, too, it is the outcome of voting for Yavlinsky and Gorbachev only that appeared significant. The results of the regression analysis with the account of the Cochrane-Orcutt transformation are presented in Tables A2-4-11 and A2-4-12.

TABLE A2-4-11. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,679 |
| R Square | 0,461 |
| Adjusted R Square | 0,439 |
| Std. Error | 9,747 |
| F-statistic | 31,659 |
| DW-statistic | 2,050 |

TABLE A2-4-12. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-----------|--------------|------------|--------------|----------------|
| Constant | 89,546 | 2,727 | 32,839 | 0,000 |
| Yavlinsky | 0,960 | 0,384 | 2,501 | 0,015 |
| Gorbachev | -19,729 | 2,484 | -7,941 | 0,000 |

2.2. Dependence on the outcome of the 1st round of voting for different political parties.

1995.

In this case it was the outcome of the voting for communists, centrists, and against all that appeared significant. The results of the regression analysis are presented in Tables A2-4-13 and A2-4-14.

TABLE A2-4-13. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,491 |
| R Square | 0,241 |
| Adjusted R Square | 0,211 |
| Std. Error | 10,963 |
| F-statistic | 7,948 |
| DW-statistic | 2,102 |

TABLE A2-4-14. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-------------|--------------|------------|--------------|----------------|
| Constant | 158,767 | 16,971 | 9,355 | 0,000 |
| Communists | -0,706 | 0,189 | -3,740 | 0,000 |
| Centrists | -0,956 | 0,199 | -4,810 | 0,000 |
| Against all | -10,108 | 3,899 | -2,593 | 0,011 |

1997.

In this case it was the results of the voting for national patriots and against all that appeared significant. Results of the regression analysis are given in Tables A2-4-15 and A2-4-16.

TABLE A2-4-15. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,459 |
| R Square | 0,211 |
| Adjusted R Square | 0,190 |
| Std. Error | 11,591 |
| F-statistic | 10,133 |
| DW-statistic | 2,144 |

TABLE A2-4-16. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-------------------|--------------|------------|--------------|----------------|
| Constant | 82,643 | 5,707 | 14,480 | 0,000 |
| National-patriots | 0,923 | 0,212 | 4,353 | 0,000 |
| Against all | -10,346 | 3,541 | -2,921 | 0,005 |

3. The share of employees at industrial enterprises of the non-government sector in the overall number of employees in the industrial sector.

3.1. Dependence on the outcome of the 1st round of voting for various candidates

1995.

In this case, it was the results of the voting for Zuganov and Lebed only that became significant. The results of the regression analysis are presented in Tables A2-4-17 and A2-4-18.

TABLE A2-4-17. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,476 |
| R Square | 0,227 |
| Adjusted R Square | 0,206 |
| Std. Error | 10,112 |
| F-statistic | 11,135 |
| DW-statistic | 2,173 |

TABLE A2-4-18. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | 56,376 | 5,668 | 9,946 | 0,000 |
| Zuganov | 0,300 | 0,099 | 3,028 | 0,003 |
| Lebed | 1,031 | 0,229 | 4,508 | 0,000 |

1997.

In this case, it was the results of the voting for Eltsin, Zuganov, Lebed, Yavlinsky, Zhirinovsly and Fedorov that appeared significant. The results of the regression analysis with the account for the Cochrane-Orcutt transformation are presented in Tables A2-4-19 and A2-4-20.

TABLE A2-4-19. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,714 |
| R Square | 0,510 |
| Adjusted R Square | 0,460 |
| Std. Error | 7,333 |
| F-statistic | 12,119 |
| DW-statistic | 2,050 |

TABLE A2-4-20. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P_v |
|-------------|---------------------|-------------------|---------------------|----------------------|
| Constant | -378,833 | 104,871 | -3,612 | 0,001 |
| Eltzin | 4,774 | 1,116 | 4,277 | 0,000 |
| Zuganov | 4,712 | 1,085 | 4,341 | 0,000 |
| Lebed | 5,143 | 1,022 | 5,033 | 0,000 |
| Yavlinsky | 4,049 | 1,181 | 3,428 | 0,001 |
| Zhirinovsly | 5,707 | 1,185 | 4,817 | 0,000 |
| Fedorov | 8,525 | 2,591 | 3,291 | 0,002 |

3.2. Dependence on the outcome of the 1st round of voting for different political forces. 1995.

In this case, it was the results of the voting for national-patriots and centrists only that became significant. The results of the regression analysis are presented in Tables A2-4-21 and A2-4-22.

TABLE A2-4-21. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,518 |
| R Square | 0,268 |
| Adjusted R Square | 0,249 |
| Std. Error | 9,835 |
| F-statistic | 13,939 |
| DW-statistic | 2,077 |

TABLE A2-4-22. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P_v |
|-------------------|---------------------|-------------------|---------------------|----------------------|
| Constant | 83,031 | 5,939 | 13,981 | 0,000 |
| National-patriots | 0,520 | 0,168 | 3,102 | 0,003 |
| Centrists | -0,366 | 0,110 | -3,346 | 0,001 |

1997.

In this case, it was the results of the voting for national-patriots and democrats that became significant. The results of the regression analysis with the account for the Cochrane-Orcutt transformation are presented in Tables A2-4-23 and A2-4-24.

TABLE A2-4-23. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,594 |
| R Square | 0,353 |
| Adjusted R Square | 0,326 |
| Std. Error | 8,133 |
| F-statistic | 20,157 |
| DW-statistic | 2,030 |

TABLE A2-4-24. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-------------------|--------------|------------|--------------|----------------|
| Constant | 75,498 | 3,240 | 23,303 | 0,000 |
| National-patriots | 0,801 | 0,130 | 6,170 | 0,000 |
| Democrats | -0,889 | 0,290 | -3,062 | 0,003 |

4. The share of non-government housing in the overall volume of housing fund.

4.1. Dependence on the outcome of the 1st round of voting for various candidates 1995.

In this case, it was the results of the voting for Eltzin, Zuganov, Lebed, Fedorov, Gorbachev, and Bryntsalov that became significant. The results of the regression analysis are presented in Tables A2-4-25 and A2-4-26.

TABLE A2-4-25. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | ,802 |
| R Square | ,644 |
| Adjusted R Square | ,614 |
| Std. Error | 9,210 |
| F-statistic | 21,688 |
| DW-statistic | 1,952 |

TABLE A2-4-26. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|------------|--------------|------------|--------------|----------------|
| Constant | -8,992 | 25,900 | -0,347 | 0,729 |
| Eltzin | 0,665 | 0,296 | 2,248 | 0,028 |
| Zuganov | 1,292 | 0,271 | 4,763 | 0,000 |
| Lebed | 1,415 | 0,412 | 3,432 | 0,001 |
| Fedorov, | -6,464 | 2,676 | -2,416 | 0,018 |
| Gorbachev | 18,964 | 3,076 | 6,166 | 0,000 |
| Bryntsalov | -118,765 | 29,491 | -4,027 | 0,000 |

1997.

In this case, too, it was the results of the voting for Eltzin, Zuganov, Lebed, Fedorov, Gorbachev, and Bryntsalov that appeared significant. The results of the regression analysis are presented in Tables A2-4-27 and A2-4-28.

TABLE A2-4-27. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | ,802 |
| R Square | ,644 |
| Adjusted R Square | ,614 |
| Std. Error | 9,210 |
| F-statistic | 21,688 |
| DW-statistic | 1,952 |

TABLE A2-4-28. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|------------|--------------|------------|--------------|----------------|
| Constant | -8,992 | 25,900 | -0,347 | 0,729 |
| Eltzin | 0,665 | 0,296 | 2,248 | 0,028 |
| Zuganov | 1,292 | 0,271 | 4,763 | 0,000 |
| Lebed | 1,415 | 0,412 | 3,432 | 0,001 |
| Fedorov, | -6,464 | 2,676 | -2,416 | 0,018 |
| Gorbachev | 18,964 | 3,076 | 6,166 | 0,000 |
| Bryntsalov | -118,765 | 29,491 | -4,027 | 0,000 |

4.2. Dependence on the outcome of the 1st round of voting for different political forces. 1995.

In this case it is the results of voting for communists that appeared significant. The results of the regression analysis with the account for the Cochrane-Orcutt transformation are as follows.

TABLE A2-4-29. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,437 |
| R Square | 0,191 |
| Adjusted R Square | 0,169 |
| Std. Error | 11,629 |
| F-statistic | 17,668 |
| DW-statistic | 1,908 |

TABLE A2-4-30. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|------------|--------------|------------|--------------|----------------|
| Constant | 45,288 | 4,456 | 10,163 | 0,000 |
| Communists | 0,486 | 0,116 | 4,203 | 0,001 |

1997.

In this case it is the results of voting for democrats only that appeared significant. The results of the regression analysis with the account for the Cochrane-Orcutt transformation are provided in Tables A2-4-31 and A2-4-32.

TABLE A2-4-31. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,437 |
| R Square | 0,191 |
| Adjusted R Square | 0,169 |
| Std. Error | 11,629 |
| F-statistic | 17,668 |
| DW-statistic | 1,908 |

TABLE A2-4-32. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|-----------|--------------|------------|--------------|----------------|
| Constant | 45,288 | 4,456 | 4,203 | 0,000 |
| Democrats | 0,486 | 0,116 | 10,163 | 0,000 |

As a result of the above calculations, a whole range of formal results was received; however, the dependence of the indices of privatization on the voting for the majority of candidates of different political orientation allows to argue that the regressions proposed have no explanatory capacity and to draw the conclusion of an impossibility to interpret the respective output.

In favor of the latter speaks a real evaluation of the political situation in Russia on the eve and, most importantly, upon the presidential elections in 1996. Indeed the fact of triumphs of representatives of the leftist opposition at a number of regional elections following the presidential run was based upon the respective results of the nation-wide elections. However, an actual spectrum of possibilities of new heads of regional administrations and the hardships facing the majority of the regions have determined such priorities in their activities that were far from the ability to drastically change the correlation between different kinds of ownership emerged at the time. In some cases there might be an indirect impact on the situation in the industries that were not in the focus of the federal center's attention, nor the nation-wide financial groups were interested in those.

Dependence of the outcome of the 1996 presidential elections on the privatization indices in 1995 and 1997.

The outcome of the first round of the voting for the three main candidates.

1. The share of votes for Eltzin.

1995.

In this case, it was the share of employees at industrial enterprises of the non-government sector in the overall number of employees in the industrial sector and the share of non-government housing in the overall volume of the housing fund that appeared significant. The results of the regression analysis with account for the Cochrane-Orcutt transformation are presented in Tables A2-4-33 and A2-4-34.

TABLE A2-4-33. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,552 |
| R Square | 0,305 |
| Adjusted R Square | 0,277 |
| Std. Error | 8,344 |
| F-statistic | 16,228 |
| DW-statistic | 1,967 |

TABLE A2-4-34. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | 73,594 | 7,394 | 9,954 | 0,000 |
| EMPLOY | -0,304 | 0,083 | -3,674 | 0,000 |
| HOUSE | -0,262 | 0,077 | -3,407 | 0,001 |

1997.

In this case, it was the share of non-government housing in the overall volume of the housing fund and the privatization indices that appeared significant. The results of the regression analysis with account for the Cochrane-Orcutt transformation are presented in Tables A2-4-35 and A2-4-36.

TABLE A2-4-35. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,519 |
| R Square | 0,269 |
| Adjusted R Square | 0,239 |
| Std. Error | 8,621 |
| F-statistic | 13,624 |
| DW-statistic | 1,990 |

TABLE A2-4-36. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | 84,504 | 10,840 | 7,795 | 0,000 |
| HOUSE | -0,306 | 0,072 | -4,268 | 0,000 |
| INDEX | -0,376 | 0,106 | -3,533 | 0,001 |

2. The share of votes for Zuganov

1995.

In this case, it was just the share of non-government housing in the overall volume of the housing fund that appeared significant. The results of the regression analysis with account for the Cochrane-Orcutt transformation are presented in Tables A2-4-37 and A2-4-38.

TABLE A2-4-37. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,585 |
| R Square | 0,342 |
| Adjusted R Square | 0,325 |
| Std. Error | 9,568 |
| F-statistic | 38,990 |
| DW-statistic | 1,954 |

TABLE A2-4-38. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | 1,891 | 5,295 | 0,357 | 0,722 |
| HOUSE | 0,523 | 0,084 | 6,244 | 0,000 |

1997.

In this case, it was the share of non-government housing in the overall volume of the housing fund and the privatization indices that appeared significant. The results of the regression analysis with account for the Cochrane-Orcutt transformation are presented in Tables A2-4-39 and A2-4-40.

TABLE A2-4-39. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,530 |
| R Square | 0,289 |
| Adjusted R Square | 0,252 |
| Std. Error | 9,930 |
| F-statistic | 14,458 |
| DW-statistic | 1,903 |

TABLE A2-4-40. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | -14,755 | 12,324 | -1,197 | 0,235 |
| HOUSE | 0,446 | 0,086 | 5,183 | 0,000 |
| INDEX | 0,241 | 0,119 | 2,015 | 0,048 |

3. The share of votes for Lebed

1995.

In this case it was just the share of employees at industrial enterprises

of the non-government sector in the overall number of employees in the industrial sector that appeared significant.. The results of the regression analysis with account for the Cochrane-Orcutt transformation are presented in Tables A2-4-41 and A2-4-42.

3. Доля голосовавших за Лебеда.

TABLE A2-4-41. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,348 |
| R Square | 0,121 |
| Adjusted R Square | 0,097 |
| Std. Error | 4,869 |
| F-statistic | 10,312 |
| DW-statistic | 2,061 |

TABLE A2-4-42. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | 2,747 | 3,801 | 3,211 | 0,002 |
| EMPLOY | 0,147 | 0,046 | 0,723 | 0,472 |

1997.

In this case, too, it was just the share of employees at industrial enterprises of the non-government sector in the overall number of employees in the industrial sector that appeared significant.. The results of the regression analysis with account for the Cochrane-Orcutt transformation are presented in Tables A2-4-41 and A2-4-42.

TABLE A2-4-43. RESULTS OF REGRESSION ANALYSIS

| | |
|-------------------|--------|
| R | 0,387 |
| R Square | 0,149 |
| Adjusted R Square | 0,127 |
| Std. Error | 4,804 |
| F-statistic | 13,173 |
| DW-statistic | 2,069 |

TABLE A2-4-44. COEFFICIENTS OF THE LINEAR REGRESSION

| | Coefficients | Std. Error | t- statistic | P _v |
|----------|--------------|------------|--------------|----------------|
| Constant | -1,608 | 4,544 | -0,354 | 0,724 |
| EMPLOY | 0,191 | 0,053 | 3,629 | 0,001 |

The formal results of the regression analysis in this part of the paper bear somewhat greater essence than in the previous section.

It is the significant negative correlation between the results of the voting for Eltzin in the both rounds and the share of employees in the non-government industrial sector and the share of the non-government housing fund in overall values of the both indices that can be considered the most significant outcome.

In contrast to that, these correlations appear positive for Zuganov: by results of the first round- only the share of the non-government housing fund, while by results of the second round- the both indices. Such outcomes may seem paradoxical at the first sight, but they are based on real grounds.

A significant part of the non-government housing fund in the country comprises one-store buildings in the countryside and small cities in the regions with a less level of urbanization. The experts tend to consider such locations the electoral base for the main candidate from opposition, which undoubtedly manifested itself in the results of the regression analysis in terms of regions.

As for the yet more enigmatic negative correlation between the results of the voting for Eltzin and the share of employees in the non-government industrial sector in the both rounds and the respective positive correlation for the results of the voting for Zuganov in the second round also has its explanation. It is not a secret to anyone that the positive outcome of the 1996 elections for the party of power mostly was ensured by the results of the voting in the national-territorial entities where the contribution of public and municipal enterprises was higher than the average one throughout the country. That is especially attributable to the results of the voting in the second round, when the increment in votes for the candidate of the party of power was especially significant vs. the first round, while the opposition candidate even lost votes in some regions. The hypothesis is proved by the fact that in many regions that were his electoral base the privatization in

the industrial sector chiefly was completed in 1994, as the combination of its production specialization and the respective provisions of the state privatization programs practically did not leave any chances to retain any significant part of industrial enterprises under the government ownership.

As concerns the other candidates, the respective formal results were unlikely to have any serious importance, except, perhaps, the results of the votes for Yavlinsky: the conclusions made in regard to Eltzin may generally be attributed to Yavlinsky, too.

On the whole one can argue that, in contrast to expectations characteristic of the early 90-s, following the current living standards and socio-psychological stereotypes, the Russian electorate has appeared less sensitive to formal results of the ownership relations reform. It is yet far more correct in regard to the aforementioned results, as it was the outcome of the elections at the regional level across the whole electorate that formed explained variables, while it was the indices that are attributed to just one of industry branches (although important, but not forming the style of life of even the urban electorate, to say nothing of the rural one: the latter may also be employed at industrial enterprises in the cities through pendulum migration or at small production facilities dealing with processing of agricultural produce and located in the countryside.

Annex to Chapter 6

Annex A.6.1. The logic of uniting regions into clusters

A.6.1.1 Dynamics of the privatization process in the industrial sector.

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|----------|
| 1 | 178 | 392 | 0,04 | 132 | 33 | 241 | 192,64 | 263 | 97 | 98 | 1645,67 |
| 2 | 254 | 335 | 0,08 | 133 | 4 | 17 | 196,08 | 264 | 16 | 25 | 1672,34 |
| 3 | 70 | 133 | 0,15 | 134 | 100 | 148 | 199,53 | 265 | 172 | 280 | 1699,65 |
| 4 | 189 | 190 | 0,24 | 135 | 32 | 125 | 203,02 | 266 | 56 | 349 | 1727,54 |
| 5 | 22 | 215 | 0,33 | 136 | 66 | 306 | 206,53 | 267 | 52 | 68 | 1755,69 |
| 6 | 173 | 361 | 0,50 | 137 | 5 | 180 | 210,08 | 268 | 181 | 359 | 1784,10 |
| 7 | 90 | 373 | 0,69 | 138 | 53 | 258 | 213,63 | 269 | 93 | 234 | 1813,55 |
| 8 | 128 | 254 | 0,89 | 139 | 119 | 340 | 217,22 | 270 | 121 | 196 | 1844,33 |
| 9 | 174 | 337 | 1,10 | 140 | 55 | 143 | 220,91 | 271 | 101 | 156 | 1875,77 |
| 10 | 178 | 238 | 1,33 | 141 | 233 | 267 | 224,81 | 272 | 10 | 151 | 1907,46 |
| 11 | 17 | 18 | 1,58 | 142 | 165 | 219 | 228,71 | 273 | 71 | 72 | 1940,25 |
| 12 | 332 | 333 | 1,84 | 143 | 200 | 255 | 232,65 | 274 | 2 | 42 | 1973,83 |
| 13 | 108 | 326 | 2,17 | 144 | 34 | 35 | 236,60 | 275 | 29 | 173 | 2007,53 |
| 14 | 136 | 336 | 2,51 | 145 | 136 | 261 | 240,59 | 276 | 320 | 370 | 2041,90 |
| 15 | 180 | 325 | 2,86 | 146 | 43 | 45 | 244,58 | 277 | 284 | 314 | 2076,41 |
| 16 | 25 | 46 | 3,22 | 147 | 37 | 248 | 248,59 | 278 | 62 | 96 | 2110,98 |
| 17 | 139 | 312 | 3,61 | 148 | 317 | 393 | 252,68 | 279 | 14 | 114 | 2146,92 |
| 18 | 267 | 318 | 4,01 | 149 | 271 | 378 | 256,77 | 280 | 93 | 95 | 2183,30 |
| 19 | 297 | 298 | 4,44 | 150 | 68 | 70 | 260,91 | 281 | 37 | 246 | 2219,98 |
| 20 | 52 | 265 | 4,87 | 151 | 327 | 342 | 265,14 | 282 | 47 | 310 | 2260,95 |
| 21 | 205 | 288 | 5,32 | 152 | 93 | 94 | 269,47 | 283 | 59 | 327 | 2302,77 |
| 22 | 235 | 236 | 5,77 | 153 | 89 | 187 | 273,82 | 284 | 36 | 111 | 2344,64 |
| 23 | 39 | 48 | 6,26 | 154 | 6 | 225 | 278,24 | 285 | 33 | 34 | 2386,60 |
| 24 | 105 | 135 | 6,79 | 155 | 42 | 128 | 282,72 | 286 | 8 | 12 | 2428,61 |
| 25 | 65 | 193 | 7,35 | 156 | 126 | 244 | 287,39 | 287 | 14 | 208 | 2471,03 |
| 26 | 143 | 205 | 7,92 | 157 | 33 | 64 | 292,21 | 288 | 92 | 172 | 2514,72 |
| 27 | 223 | 388 | 8,49 | 158 | 152 | 153 | 297,03 | 289 | 99 | 149 | 2560,27 |
| 28 | 32 | 218 | 9,07 | 159 | 95 | 281 | 301,86 | 290 | 57 | 67 | 2606,11 |
| 29 | 372 | 386 | 9,66 | 160 | 149 | 202 | 306,81 | 291 | 3 | 50 | 2652,24 |
| 30 | 97 | 350 | 10,27 | 161 | 65 | 159 | 311,93 | 292 | 176 | 186 | 2698,89 |
| 31 | 67 | 331 | 10,88 | 162 | 50 | 103 | 317,12 | 293 | 134 | 137 | 2746,69 |
| 32 | 82 | 341 | 11,52 | 163 | 91 | 249 | 322,36 | 294 | 13 | 301 | 2795,13 |
| 33 | 5 | 291 | 12,19 | 164 | 301 | 302 | 327,65 | 295 | 106 | 176 | 2845,22 |
| 34 | 69 | 257 | 12,85 | 165 | 113 | 168 | 332,95 | 296 | 15 | 113 | 2896,52 |
| 35 | 85 | 220 | 13,54 | 166 | 184 | 296 | 338,26 | 297 | 16 | 38 | 2948,66 |
| 36 | 100 | 351 | 14,25 | 167 | 79 | 253 | 343,63 | 298 | 131 | 226 | 3001,03 |
| 37 | 43 | 44 | 14,97 | 168 | 140 | 222 | 348,99 | 299 | 63 | 157 | 3055,57 |
| 38 | 17 | 19 | 15,70 | 169 | 23 | 40 | 354,61 | 300 | 28 | 80 | 3112,15 |
| 39 | 268 | 338 | 16,43 | 170 | 2 | 22 | 360,35 | 301 | 78 | 87 | 3169,78 |
| 40 | 140 | 221 | 17,18 | 171 | 315 | 347 | 366,13 | 302 | 169 | 297 | 3231,42 |
| 41 | 142 | 203 | 17,93 | 172 | 3 | 69 | 371,94 | 303 | 5 | 59 | 3294,67 |
| 42 | 98 | 124 | 18,73 | 173 | 84 | 85 | 377,76 | 304 | 77 | 141 | 3358,42 |
| 43 | 45 | 58 | 19,56 | 174 | 16 | 271 | 383,70 | 305 | 163 | 214 | 3428,33 |
| 44 | 53 | 266 | 20,41 | 175 | 209 | 252 | 389,96 | 306 | 207 | 355 | 3498,30 |
| 45 | 169 | 192 | 21,27 | 176 | 20 | 109 | 396,23 | 307 | 31 | 191 | 3573,13 |
| 46 | 50 | 391 | 22,14 | 177 | 77 | 294 | 402,51 | 308 | 73 | 169 | 3649,68 |
| 47 | 155 | 179 | 23,01 | 178 | 52 | 200 | 408,86 | 309 | 181 | 356 | 3727,76 |
| 48 | 49 | 107 | 23,90 | 179 | 188 | 231 | 415,30 | 310 | 11 | 304 | 3806,18 |
| 49 | 42 | 51 | 24,80 | 180 | 217 | 263 | 422,02 | 311 | 78 | 171 | 3884,82 |
| 50 | 258 | 343 | 25,71 | 181 | 157 | 270 | 428,75 | 312 | 211 | 282 | 3964,21 |
| 51 | 109 | 154 | 26,64 | 182 | 36 | 269 | 435,58 | 313 | 61 | 284 | 4043,63 |
| 52 | 168 | 182 | 27,59 | 183 | 171 | 250 | 442,68 | 314 | 161 | 329 | 4123,21 |
| 53 | 151 | 256 | 28,56 | 184 | 42 | 129 | 450,12 | 315 | 23 | 54 | 4203,42 |
| 54 | 84 | 174 | 29,62 | 185 | 113 | 290 | 457,57 | 316 | 10 | 52 | 4287,00 |
| 55 | 145 | 377 | 30,70 | 186 | 162 | 206 | 465,13 | 317 | 9 | 97 | 4371,79 |
| 56 | 187 | 276 | 31,78 | 187 | 184 | 185 | 472,72 | 318 | 344 | 354 | 4457,91 |
| 57 | 233 | 332 | 32,88 | 188 | 246 | 365 | 480,39 | 319 | 37 | 41 | 4544,72 |
| 58 | 105 | 262 | 33,98 | 189 | 43 | 82 | 488,08 | 320 | 6 | 289 | 4638,69 |

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|----------|
| 59 | 159 | 381 | 35,09 | 190 | 102 | 199 | 495,80 | 321 | 1 | 7 | 4734,15 |
| 60 | 84 | 110 | 36,23 | 191 | 97 | 132 | 503,67 | 322 | 8 | 86 | 4836,87 |
| 61 | 285 | 380 | 37,40 | 192 | 59 | 84 | 512,03 | 323 | 4 | 43 | 4941,62 |
| 62 | 11 | 245 | 38,57 | 193 | 101 | 228 | 520,46 | 324 | 32 | 75 | 5047,94 |
| 63 | 114 | 115 | 39,78 | 194 | 98 | 100 | 529,02 | 325 | 14 | 15 | 5156,45 |
| 64 | 29 | 30 | 41,03 | 195 | 15 | 274 | 537,64 | 326 | 26 | 126 | 5270,33 |
| 65 | 120 | 198 | 42,28 | 196 | 57 | 127 | 546,51 | 327 | 116 | 121 | 5384,71 |
| 66 | 16 | 376 | 43,55 | 197 | 157 | 366 | 555,47 | 328 | 76 | 77 | 5499,66 |
| 67 | 22 | 216 | 44,82 | 198 | 67 | 118 | 564,52 | 329 | 21 | 131 | 5618,50 |
| 68 | 287 | 372 | 46,11 | 199 | 197 | 201 | 573,74 | 330 | 163 | 309 | 5742,06 |
| 69 | 20 | 328 | 47,43 | 200 | 12 | 305 | 582,99 | 331 | 6 | 229 | 5867,11 |
| 70 | 293 | 313 | 48,77 | 201 | 87 | 170 | 592,35 | 332 | 2 | 57 | 5992,87 |
| 71 | 277 | 278 | 50,12 | 202 | 24 | 353 | 601,80 | 333 | 61 | 295 | 6126,77 |
| 72 | 75 | 272 | 51,46 | 203 | 137 | 292 | 611,58 | 334 | 32 | 33 | 6265,23 |
| 73 | 261 | 390 | 52,84 | 204 | 62 | 146 | 621,39 | 335 | 5 | 104 | 6410,24 |
| 74 | 222 | 387 | 54,23 | 205 | 134 | 140 | 631,68 | 336 | 11 | 101 | 6571,16 |
| 75 | 150 | 316 | 55,68 | 206 | 32 | 194 | 642,24 | 337 | 8 | 299 | 6733,04 |
| 76 | 231 | 232 | 57,15 | 207 | 8 | 210 | 652,89 | 338 | 37 | 47 | 6899,68 |
| 77 | 217 | 286 | 58,64 | 208 | 157 | 160 | 663,78 | 339 | 92 | 93 | 7070,21 |
| 78 | 28 | 367 | 60,27 | 209 | 141 | 358 | 674,75 | 340 | 62 | 147 | 7246,13 |
| 79 | 104 | 235 | 61,95 | 210 | 98 | 123 | 685,75 | 341 | 181 | 213 | 7425,82 |
| 80 | 103 | 175 | 63,65 | 211 | 33 | 145 | 697,11 | 342 | 224 | 319 | 7606,24 |
| 81 | 102 | 130 | 65,35 | 212 | 173 | 233 | 708,49 | 343 | 21 | 36 | 7787,20 |
| 82 | 23 | 39 | 67,06 | 213 | 38 | 88 | 719,99 | 344 | 23 | 29 | 7976,45 |
| 83 | 187 | 363 | 68,80 | 214 | 13 | 300 | 731,70 | 345 | 181 | 197 | 8184,03 |
| 84 | 194 | 195 | 70,58 | 215 | 28 | 317 | 743,47 | 346 | 2 | 10 | 8403,28 |
| 85 | 11 | 227 | 72,37 | 216 | 320 | 374 | 756,28 | 347 | 5 | 134 | 8630,43 |
| 86 | 82 | 83 | 74,27 | 217 | 14 | 27 | 769,88 | 348 | 71 | 106 | 8864,74 |
| 87 | 85 | 108 | 76,20 | 218 | 23 | 90 | 783,64 | 349 | 13 | 16 | 9099,24 |
| 88 | 54 | 142 | 78,14 | 219 | 310 | 334 | 797,47 | 350 | 23 | 60 | 9343,64 |
| 89 | 185 | 230 | 80,12 | 220 | 183 | 184 | 811,30 | 351 | 37 | 63 | 9588,61 |
| 90 | 3 | 49 | 82,10 | 221 | 54 | 55 | 825,34 | 352 | 3 | 4 | 9842,27 |
| 91 | 37 | 348 | 84,11 | 222 | 165 | 279 | 839,67 | 353 | 62 | 165 | 10096,87 |
| 92 | 234 | 368 | 86,18 | 223 | 50 | 53 | 854,10 | 354 | 1 | 320 | 10353,98 |
| 93 | 35 | 144 | 88,26 | 224 | 47 | 120 | 868,76 | 355 | 26 | 330 | 10617,17 |
| 94 | 153 | 311 | 90,39 | 225 | 25 | 303 | 883,74 | 356 | 56 | 264 | 10900,65 |
| 95 | 38 | 275 | 92,56 | 226 | 304 | 385 | 898,91 | 357 | 9 | 99 | 11185,62 |
| 96 | 80 | 277 | 94,75 | 227 | 29 | 242 | 914,23 | 358 | 31 | 224 | 11488,14 |
| 97 | 109 | 155 | 96,97 | 228 | 149 | 150 | 930,32 | 359 | 61 | 76 | 11830,96 |
| 98 | 167 | 321 | 99,23 | 229 | 104 | 178 | 946,64 | 360 | 71 | 211 | 12200,77 |
| 99 | 41 | 360 | 101,52 | 230 | 5 | 20 | 963,04 | 361 | 62 | 78 | 12597,70 |
| 100 | 129 | 247 | 103,87 | 231 | 181 | 369 | 979,44 | 362 | 23 | 28 | 13012,27 |
| 101 | 50 | 177 | 106,24 | 232 | 67 | 119 | 996,06 | 363 | 6 | 163 | 13460,59 |
| 102 | 7 | 346 | 108,61 | 233 | 96 | 112 | 1012,79 | 364 | 8 | 14 | 13930,40 |
| 103 | 112 | 384 | 111,03 | 234 | 226 | 323 | 1029,56 | 365 | 61 | 212 | 14450,90 |
| 104 | 176 | 259 | 113,46 | 235 | 204 | 352 | 1046,44 | 366 | 161 | 207 | 15034,52 |
| 105 | 157 | 158 | 115,89 | 236 | 73 | 79 | 1063,49 | 367 | 13 | 37 | 15651,94 |
| 106 | 59 | 362 | 118,33 | 237 | 4 | 152 | 1080,70 | 368 | 9 | 32 | 16277,66 |
| 107 | 104 | 105 | 120,78 | 238 | 63 | 315 | 1097,93 | 369 | 116 | 181 | 16924,33 |
| 108 | 178 | 189 | 123,27 | 239 | 26 | 239 | 1115,51 | 370 | 3 | 5 | 17613,67 |
| 109 | 9 | 122 | 125,80 | 240 | 147 | 164 | 1133,21 | 371 | 92 | 357 | 18376,18 |
| 110 | 65 | 382 | 128,37 | 241 | 171 | 322 | 1151,01 | 372 | 8 | 11 | 19177,33 |
| 111 | 47 | 375 | 130,99 | 242 | 99 | 217 | 1168,89 | 373 | 1 | 56 | 19981,77 |
| 112 | 274 | 339 | 133,62 | 243 | 213 | 389 | 1187,15 | 374 | 13 | 73 | 20847,15 |
| 113 | 209 | 273 | 136,27 | 244 | 80 | 89 | 1205,64 | 375 | 21 | 26 | 21977,52 |
| 114 | 134 | 237 | 138,92 | 245 | 78 | 308 | 1224,31 | 376 | 31 | 344 | 23197,60 |
| 115 | 160 | 285 | 141,72 | 246 | 137 | 139 | 1243,35 | 377 | 8 | 62 | 24623,16 |
| 116 | 90 | 383 | 144,52 | 247 | 11 | 167 | 1262,96 | 378 | 71 | 92 | 26068,50 |
| 117 | 140 | 223 | 147,32 | 248 | 60 | 204 | 1283,48 | 379 | 6 | 21 | 27555,07 |
| 118 | 282 | 283 | 150,14 | 249 | 3 | 136 | 1304,08 | 380 | 3 | 23 | 29372,31 |
| 119 | 183 | 251 | 152,99 | 250 | 68 | 102 | 1324,82 | 381 | 9 | 13 | 31577,16 |
| 120 | 123 | 371 | 155,88 | 251 | 61 | 166 | 1345,99 | 382 | 31 | 117 | 33972,63 |
| 121 | 60 | 287 | 158,78 | 252 | 161 | 162 | 1368,49 | 383 | 2 | 9 | 36707,99 |
| 122 | 61 | 81 | 161,71 | 253 | 41 | 66 | 1392,08 | 384 | 116 | 161 | 40139,74 |
| 123 | 242 | 243 | 164,67 | 254 | 1 | 345 | 1415,91 | 385 | 1 | 8 | 43652,05 |
| 124 | 137 | 138 | 167,64 | 255 | 75 | 209 | 1440,09 | 386 | 1 | 71 | 49708,29 |
| 125 | 151 | 260 | 170,67 | 256 | 32 | 65 | 1464,48 | 387 | 6 | 61 | 56565,55 |
| 126 | 173 | 268 | 173,73 | 257 | 77 | 91 | 1488,94 | 388 | 31 | 116 | 64396,56 |

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|-----------|
| 127 | 169 | 240 | 176,78 | 258 | 7 | 324 | 1513,96 | 389 | 2 | 3 | 76508,64 |
| 128 | 292 | 293 | 179,83 | 259 | 207 | 364 | 1539,99 | 390 | 6 | 31 | 99250,39 |
| 129 | 253 | 307 | 182,96 | 260 | 104 | 188 | 1566,07 | 391 | 1 | 2 | 140404,81 |
| 130 | 309 | 379 | 186,15 | 261 | 169 | 183 | 1592,47 | 392 | 1 | 6 | 393592,88 |
| 131 | 28 | 74 | 189,39 | 262 | 9 | 24 | 1619,01 | | | | |

A.6.1.2 Dynamics of the share of non-government industrial enterprises

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|----------|
| 1 | 11 | 52 | 0,94 | 27 | 8 | 37 | 195,63 | 53 | 1 | 62 | 1166,16 |
| 2 | 19 | 35 | 2,36 | 28 | 21 | 78 | 211,74 | 54 | 40 | 74 | 1253,47 |
| 3 | 22 | 55 | 4,09 | 29 | 13 | 68 | 228,06 | 55 | 5 | 12 | 1345,56 |
| 4 | 15 | 47 | 6,32 | 30 | 18 | 54 | 246,65 | 56 | 18 | 41 | 1453,47 |
| 5 | 21 | 59 | 8,98 | 31 | 58 | 76 | 266,74 | 57 | 11 | 77 | 1570,39 |
| 6 | 31 | 50 | 11,63 | 32 | 19 | 36 | 288,00 | 58 | 4 | 19 | 1697,48 |
| 7 | 30 | 34 | 15,34 | 33 | 23 | 70 | 310,38 | 59 | 3 | 26 | 1829,36 |
| 8 | 56 | 57 | 19,80 | 34 | 11 | 16 | 334,70 | 60 | 69 | 71 | 1977,20 |
| 9 | 14 | 51 | 25,78 | 35 | 3 | 20 | 359,58 | 61 | 2 | 45 | 2186,54 |
| 10 | 22 | 60 | 31,92 | 36 | 21 | 29 | 384,54 | 62 | 4 | 11 | 2417,76 |
| 11 | 54 | 56 | 38,42 | 37 | 27 | 73 | 411,11 | 63 | 64 | 69 | 2705,13 |
| 12 | 23 | 43 | 44,95 | 38 | 4 | 10 | 439,40 | 64 | 18 | 21 | 3017,30 |
| 13 | 18 | 72 | 51,86 | 39 | 15 | 28 | 468,93 | 65 | 7 | 66 | 3460,83 |
| 14 | 63 | 67 | 59,12 | 40 | 5 | 8 | 500,88 | 66 | 4 | 6 | 3947,50 |
| 15 | 38 | 44 | 66,52 | 41 | 27 | 58 | 533,51 | 67 | 33 | 64 | 4443,07 |
| 16 | 26 | 49 | 74,67 | 42 | 11 | 13 | 567,74 | 68 | 5 | 40 | 4980,19 |
| 17 | 19 | 22 | 83,09 | 43 | 7 | 53 | 602,43 | 69 | 1 | 7 | 5558,39 |
| 18 | 25 | 32 | 91,65 | 44 | 6 | 15 | 639,21 | 70 | 3 | 5 | 6262,64 |
| 19 | 9 | 14 | 101,43 | 45 | 18 | 65 | 681,57 | 71 | 33 | 42 | 6993,07 |
| 20 | 17 | 31 | 111,22 | 46 | 9 | 30 | 724,22 | 72 | 4 | 18 | 7936,48 |
| 21 | 29 | 48 | 122,31 | 47 | 5 | 23 | 770,77 | 73 | 2 | 24 | 8897,17 |
| 22 | 27 | 75 | 133,52 | 48 | 1 | 27 | 820,11 | 74 | 2 | 33 | 10193,53 |
| 23 | 20 | 25 | 144,87 | 49 | 7 | 39 | 883,27 | 75 | 3 | 4 | 12821,47 |
| 24 | 13 | 17 | 156,99 | 50 | 21 | 38 | 947,49 | 76 | 1 | 3 | 20779,70 |
| 25 | 7 | 46 | 169,21 | 51 | 11 | 63 | 1013,10 | 77 | 1 | 2 | 40836,54 |
| 26 | 12 | 61 | 181,44 | 52 | 3 | 9 | 1088,59 | | | | |

A.6.1.3. Dynamics of the share of output of the non-government industrial enterprises

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|----------|
| 1 | 55 | 68 | 2,30 | 27 | 6 | 27 | 679,67 | 53 | 13 | 29 | 4112,89 |
| 2 | 36 | 38 | 5,19 | 28 | 9 | 10 | 726,20 | 54 | 3 | 30 | 4398,68 |
| 3 | 9 | 14 | 10,40 | 29 | 3 | 20 | 773,12 | 55 | 19 | 34 | 4704,20 |
| 4 | 53 | 67 | 16,93 | 30 | 41 | 74 | 822,45 | 56 | 24 | 42 | 5017,20 |
| 5 | 11 | 12 | 25,74 | 31 | 30 | 61 | 882,75 | 57 | 13 | 39 | 5348,08 |
| 6 | 53 | 60 | 38,69 | 32 | 9 | 51 | 950,81 | 58 | 2 | 6 | 5735,36 |
| 7 | 28 | 31 | 52,48 | 33 | 57 | 63 | 1026,99 | 59 | 17 | 78 | 6129,10 |
| 8 | 51 | 53 | 67,08 | 34 | 13 | 57 | 1106,89 | 60 | 4 | 9 | 6532,61 |
| 9 | 21 | 44 | 82,32 | 35 | 4 | 28 | 1187,84 | 61 | 7 | 73 | 6958,56 |
| 10 | 21 | 47 | 102,35 | 36 | 17 | 62 | 1280,46 | 62 | 1 | 22 | 7518,05 |
| 11 | 20 | 75 | 123,41 | 37 | 41 | 72 | 1378,35 | 63 | 2 | 15 | 8276,22 |
| 12 | 6 | 8 | 145,47 | 38 | 34 | 64 | 1483,28 | 64 | 7 | 66 | 9119,69 |
| 13 | 57 | 76 | 167,66 | 39 | 7 | 25 | 1593,42 | 65 | 19 | 56 | 10209,94 |
| 14 | 32 | 54 | 191,88 | 40 | 9 | 11 | 1703,76 | 66 | 24 | 33 | 11466,33 |
| 15 | 5 | 26 | 219,26 | 41 | 2 | 48 | 1834,45 | 67 | 3 | 18 | 12744,60 |
| 16 | 1 | 55 | 247,01 | 42 | 3 | 70 | 1969,73 | 68 | 13 | 17 | 14105,34 |
| 17 | 48 | 49 | 278,09 | 43 | 5 | 32 | 2108,89 | 69 | 16 | 24 | 15956,31 |
| 18 | 24 | 40 | 311,13 | 44 | 6 | 46 | 2258,79 | 70 | 2 | 3 | 17995,36 |
| 19 | 7 | 37 | 347,51 | 45 | 19 | 45 | 2409,81 | 71 | 7 | 13 | 20536,40 |
| 20 | 46 | 58 | 384,00 | 46 | 1 | 21 | 2564,39 | 72 | 1 | 4 | 23405,29 |
| 21 | 1 | 65 | 420,95 | 47 | 2 | 5 | 2750,54 | 73 | 19 | 71 | 27607,54 |
| 22 | 35 | 77 | 460,67 | 48 | 22 | 52 | 2946,11 | 74 | 1 | 2 | 33411,57 |
| 23 | 39 | 50 | 503,51 | 49 | 16 | 59 | 3151,31 | 75 | 16 | 19 | 43961,86 |

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|-----------|
| 24 | 23 | 69 | 546,76 | 50 | 7 | 41 | 3372,37 | 76 | 7 | 16 | 61746,27 |
| 25 | 29 | 43 | 590,55 | 51 | 15 | 23 | 3601,96 | 77 | 1 | 7 | 109180,95 |
| 26 | 22 | 36 | 634,46 | 52 | 18 | 35 | 3839,75 | | | | |

A.6.1.4. Dynamics of the share of employees at the non-government industrial enterprises.

| Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance | Step | Cluster 1 | Cluster 2 | Distance |
|------|-----------|-----------|----------|------|-----------|-----------|----------|------|-----------|-----------|----------|
| 1 | 14 | 20 | 1,73 | 27 | 22 | 27 | 565,32 | 53 | 16 | 59 | 3094,10 |
| 2 | 11 | 51 | 3,82 | 28 | 37 | 73 | 614,21 | 54 | 3 | 23 | 3301,31 |
| 3 | 35 | 52 | 9,59 | 29 | 5 | 55 | 670,92 | 55 | 7 | 17 | 3515,57 |
| 4 | 1 | 9 | 17,44 | 30 | 40 | 66 | 729,61 | 56 | 24 | 25 | 3823,03 |
| 5 | 44 | 65 | 25,67 | 31 | 34 | 49 | 789,58 | 57 | 4 | 28 | 4149,82 |
| 6 | 55 | 75 | 35,60 | 32 | 1 | 35 | 850,00 | 58 | 1 | 10 | 4494,22 |
| 7 | 4 | 47 | 47,06 | 33 | 7 | 48 | 912,13 | 59 | 7 | 13 | 4854,41 |
| 8 | 30 | 53 | 59,79 | 34 | 45 | 64 | 975,29 | 60 | 37 | 72 | 5318,11 |
| 9 | 28 | 31 | 74,48 | 35 | 21 | 22 | 1038,69 | 61 | 2 | 34 | 5855,28 |
| 10 | 22 | 68 | 89,58 | 36 | 58 | 62 | 1103,33 | 62 | 5 | 56 | 6488,56 |
| 11 | 7 | 57 | 104,90 | 37 | 10 | 11 | 1187,40 | 63 | 7 | 58 | 7170,44 |
| 12 | 32 | 54 | 120,28 | 38 | 23 | 60 | 1272,78 | 64 | 1 | 77 | 7887,31 |
| 13 | 13 | 76 | 135,99 | 39 | 13 | 63 | 1366,11 | 65 | 24 | 37 | 8771,35 |
| 14 | 27 | 38 | 152,10 | 40 | 17 | 29 | 1461,69 | 66 | 16 | 45 | 9660,06 |
| 15 | 1 | 67 | 168,55 | 41 | 2 | 6 | 1558,11 | 67 | 1 | 21 | 10561,70 |
| 16 | 35 | 36 | 188,56 | 42 | 18 | 46 | 1654,90 | 68 | 33 | 40 | 11623,79 |
| 17 | 19 | 43 | 211,50 | 43 | 25 | 41 | 1754,53 | 69 | 2 | 3 | 12686,57 |
| 18 | 60 | 61 | 237,82 | 44 | 4 | 44 | 1856,47 | 70 | 1 | 4 | 13761,59 |
| 19 | 50 | 69 | 266,09 | 45 | 34 | 50 | 1975,94 | 71 | 2 | 16 | 16083,17 |
| 20 | 10 | 70 | 295,38 | 46 | 33 | 42 | 2098,17 | 72 | 7 | 24 | 18554,81 |
| 21 | 14 | 30 | 326,05 | 47 | 2 | 15 | 2221,79 | 73 | 1 | 5 | 21691,60 |
| 22 | 41 | 78 | 356,90 | 48 | 5 | 18 | 2350,94 | 74 | 33 | 71 | 25093,39 |
| 23 | 8 | 32 | 389,74 | 49 | 13 | 26 | 2481,11 | 75 | 2 | 7 | 33406,99 |
| 24 | 11 | 12 | 429,77 | 50 | 72 | 74 | 2612,23 | 76 | 2 | 33 | 47219,41 |
| 25 | 13 | 39 | 469,80 | 51 | 1 | 14 | 2749,65 | 77 | 1 | 2 | 82990,98 |
| 26 | 13 | 19 | 517,15 | 52 | 5 | 8 | 2918,18 | | | | |

A.6.1.5. Dynamics of the share of non-government housing.

| Шаг | Кластер 1 | Кластер 2 | Расстояние | Шаг | Кластер 1 | Кластер 2 | Расстояние | Шаг | Кластер 1 | Кластер 2 | Расстояние |
|-----|-----------|-----------|------------|-----|-----------|-----------|------------|-----|-----------|-----------|------------|
| 1 | | | 0,00 | 30 | | | 8,00 | 59 | | | 40,00 |
| 2 | | | 0,00 | 31 | | | 8,00 | 60 | | | 40,67 |
| 3 | | | 1,00 | 32 | | | 8,40 | 61 | | | 51,00 |
| 4 | | | 1,00 | 33 | | | 9,00 | 62 | | | 70,50 |
| 5 | | | 1,00 | 34 | | | 9,00 | 63 | | | 71,33 |
| 6 | | | 2,00 | 35 | | | 9,00 | 64 | | | 72,21 |
| 7 | | | 2,00 | 36 | | | 9,00 | 65 | | | 81,43 |
| 8 | | | 2,00 | 37 | | | 9,50 | 66 | | | 92,60 |
| 9 | | | 2,00 | 38 | | | 13,50 | 67 | | | 101,94 |
| 10 | | | 2,00 | 39 | | | 14,00 | 68 | | | 103,44 |
| 11 | | | 2,00 | 40 | | | 14,00 | 69 | | | 103,80 |
| 12 | | | 2,50 | 41 | | | 14,00 | 70 | | | 113,64 |
| 13 | | | 3,00 | 42 | | | 14,75 | 71 | | | 139,40 |
| 14 | | | 3,00 | 43 | | | 14,83 | 72 | | | 154,06 |
| 15 | | | 3,50 | 44 | | | 15,50 | 73 | | | 202,00 |
| 16 | | | 4,00 | 45 | | | 17,00 | 74 | | | 212,22 |
| 17 | | | 4,83 | 46 | | | 17,00 | 75 | | | 227,43 |
| 18 | | | 5,00 | 47 | | | 18,00 | 76 | | | 266,00 |
| 19 | | | 5,00 | 48 | | | 19,65 | 77 | | | 284,59 |
| 20 | | | 5,00 | 49 | | | 20,00 | 78 | | | 304,48 |
| 21 | | | 5,49 | 50 | | | 22,00 | 79 | | | 507,79 |
| 22 | | | 5,67 | 51 | | | 22,50 | 80 | | | 565,49 |
| 23 | | | 6,00 | 52 | | | 23,00 | 81 | | | 696,00 |
| 24 | | | 6,00 | 53 | | | 26,90 | 82 | | | 764,29 |

| Шаг | Кластер 1 | Кластер 2 | Расстояние | Шаг | Кластер 1 | Кластер 2 | Расстояние | Шаг | Кластер 1 | Кластер 2 | Расстояние |
|-----|-----------|-----------|------------|-----|-----------|-----------|------------|-----|-----------|-----------|------------|
| 25 | | | 6,67 | 54 | | | 31,00 | 83 | | | 1261,67 |
| 26 | | | 7,00 | 55 | | | 31,08 | 84 | | | 1613,12 |
| 27 | | | 7,50 | 56 | | | 32,80 | 85 | | | 1958,13 |
| 28 | | | 7,50 | 57 | | | 36,39 | 86 | | | 4378,81 |
| 29 | | | 7,67 | 58 | | | 37,00 | 87 | | | 6640,13 |

A.6.2. The involvement of RF regions in clusters in dynamics

| Region | Clusters | | | | | Clusters dynamics | | | |
|----------------------------------|----------|------|------|------|------|-------------------|-----------|-----------|-----------|
| | 1993 | 1994 | 1995 | 1997 | 1998 | 1994/1993 | 1995/1994 | 1997/1995 | 1998/1997 |
| Republic of Karelia | 12 | 18 | 20 | 20 | 20 | + 6 | + 2 | ± 0 | ± 0 |
| Republic of Komi | 7 | 12 | 14 | 17 | 18 | + 5 | + 2 | + 3 | + 1 |
| Arkhangel'sk Oblast | 14 | 14 | 16 | 14 | 14 | ± 0 | + 2 | - 2 | ± 0 |
| Vologda Oblast | 16 | 20 | 20 | 20 | 20 | + 4 | ± 0 | ± 0 | ± 0 |
| Murmansk Oblast | 9 | 18 | 19 | 17 | 16 | + 9 | + 1 | - 2 | - 1 |
| S-Petersburg | 8 | 14 | 19 | 19 | 19 | + 6 | + 5 | ± 0 | ± 0 |
| Leningrad Oblast | 4 | 17 | 17 | 17 | 17 | + 13 | ± 0 | ± 0 | ± 0 |
| Novgorod Oblast | 9 | 16 | 16 | 19 | 19 | + 7 | ± 0 | + 3 | ± 0 |
| Pskov Oblast | 16 | 18 | 20 | 20 | 20 | + 2 | + 2 | ± 0 | ± 0 |
| Bryansk Oblast | 16 | 16 | 19 | 20 | 20 | ± 0 | + 3 | + 1 | ± 0 |
| Vladimir Oblast | 18 | 18 | 20 | 19 | 19 | ± 0 | + 2 | - 1 | ± 0 |
| Ivanovo Oblast | 12 | 18 | 20 | 20 | 19 | + 6 | + 2 | ± 0 | - 1 |
| Kaluga Oblast | 6 | 11 | 16 | 17 | 17 | + 5 | + 5 | + 1 | ± 0 |
| Kostroma Oblast | 16 | 18 | 18 | 20 | 18 | + 2 | ± 0 | + 2 | - 2 |
| City of Moscow | 10 | 10 | 15 | 19 | 17 | ± 0 | + 5 | + 4 | - 2 |
| Moscow Oblast | 6 | 6 | 11 | 15 | 19 | ± 0 | + 5 | + 4 | + 4 |
| Orel Oblast | 6 | 20 | 20 | 20 | 20 | + 14 | ± 0 | ± 0 | ± 0 |
| Ryazan Oblast | 14 | 11 | 16 | 19 | 19 | - 3 | + 5 | + 3 | ± 0 |
| Smolensk Oblast | 6 | 13 | 13 | 13 | 13 | + 7 | ± 0 | ± 0 | ± 0 |
| Tver Oblast | 11 | 17 | 17 | 17 | 17 | + 6 | ± 0 | ± 0 | ± 0 |
| Tula Oblast | 14 | 18 | 20 | 20 | 20 | + 4 | + 2 | ± 0 | ± 0 |
| Yaroslavl Oblast | 10 | 20 | 20 | 20 | 20 | + 10 | ± 0 | ± 0 | ± 0 |
| Republic of Mary-El | 9 | 11 | 14 | 14 | 14 | + 2 | + 3 | ± 0 | ± 0 |
| Republic of Mordovia | 2 | 5 | 18 | 18 | 16 | + 3 | + 13 | ± 0 | - 2 |
| Chuvash Republic | 2 | 17 | 17 | 17 | 17 | + 15 | ± 0 | ± 0 | ± 0 |
| Kirov Oblast | 8 | 18 | 18 | 18 | 18 | + 10 | ± 0 | ± 0 | ± 0 |
| Nizhny Novgorod | 9 | 17 | 18 | 20 | 20 | + 8 | + 1 | + 2 | ± 0 |
| Belgorod Oblast | 20 | 20 | 20 | 20 | 20 | ± 0 | ± 0 | ± 0 | ± 0 |
| Voronezh Oblast | 6 | 19 | 19 | 17 | 17 | + 13 | ± 0 | - 2 | ± 0 |
| Kursk Oblast | 11 | 11 | 17 | 17 | 17 | ± 0 | + 6 | ± 0 | ± 0 |
| Lipetsk Oblast | 18 | 20 | 20 | 20 | 20 | + 2 | ± 0 | ± 0 | ± 0 |
| Tambov Oblast | 14 | 16 | 16 | 17 | 16 | + 2 | ± 0 | + 1 | - 1 |
| Republic of Kalmykia | 1 | 1 | 7 | 11 | 11 | ± 0 | + 6 | + 4 | ± 0 |
| Republic of Tatarstan | 6 | 14 | 14 | 15 | 11 | + 8 | ± 0 | + 1 | - 4 |
| Astrakhan Oblast | 11 | 13 | 19 | 20 | 20 | + 2 | + 6 | + 1 | ± 0 |
| Volgograd Oblast | 10 | 20 | 20 | 20 | 20 | + 10 | ± 0 | ± 0 | ± 0 |
| Penza Oblast | 2 | 14 | 15 | 15 | 15 | + 12 | + 1 | ± 0 | ± 0 |
| Samara Oblast | 10 | 19 | 20 | 20 | 20 | + 9 | + 1 | ± 0 | ± 0 |
| Saratov Oblast | 4 | 15 | 17 | 17 | 17 | + 11 | + 2 | ± 0 | ± 0 |
| Ulyanovsk Oblast | 2 | 2 | 16 | 18 | 18 | ± 0 | + 14 | + 2 | ± 0 |
| Republic of Adygea | 2 | 17 | 19 | 19 | 19 | + 15 | + 2 | ± 0 | ± 0 |
| Republic of Dagestan | 1 | 1 | 14 | 17 | 14 | ± 0 | + 13 | + 3 | - 3 |
| Republic of Ingushetia | | | 10 | 6 | 2 | | | - 4 | - 4 |
| Kabardino-Balkarskaya AO | 7 | 18 | 18 | 17 | 17 | + 11 | ± 0 | - 1 | ± 0 |
| Karachaevo-Cherkessia | 11 | 20 | 20 | 20 | 20 | + 9 | ± 0 | ± 0 | ± 0 |
| Republic of North-Ossetia-Alania | 4 | 7 | 9 | 14 | 14 | + 3 | + 2 | + 5 | ± 0 |
| Krasnodar Krai | 7 | 15 | 20 | 20 | 19 | + 8 | + 5 | ± 0 | - 1 |

| Region | Clusters | | | | | Clusters dynamics | | | |
|------------------------------|-------------|--------------|--------------|--------------|--------------|-------------------|---------------|---------------|---------------|
| | 1993 | 1994 | 1995 | 1997 | 1998 | 1994/1993 | 1995/1994 | 1997/1995 | 1998/1997 |
| Stavropol Krai | 13 | 20 | 20 | 20 | 20 | + 7 | ± 0 | ± 0 | ± 0 |
| Rostov Oblast | 8 | 15 | 17 | 19 | 19 | + 7 | + 2 | + 2 | ± 0 |
| Republic of Bashkortostan | 8 | 14 | 16 | 18 | 16 | + 6 | + 2 | + 2 | - 2 |
| Udmurt Republic | 6 | 11 | 15 | 17 | 15 | + 5 | + 4 | + 2 | - 2 |
| Kurgan Oblast | 18 | 18 | 18 | 20 | 20 | ± 0 | ± 0 | + 2 | ± 0 |
| Orenburg Oblast | 10 | 18 | 20 | 20 | 17 | + 8 | + 2 | ± 0 | - 3 |
| Perm Oblast | 12 | 18 | 20 | 19 | 19 | + 6 | + 2 | - 1 | ± 0 |
| Sverdlovsk Oblast | 9 | 16 | 16 | 17 | 17 | + 7 | ± 0 | + 1 | ± 0 |
| Chelyabinsk Oblast | 14 | 16 | 19 | 19 | 19 | + 2 | + 3 | ± 0 | ± 0 |
| Altay Republic | 11 | 13 | 13 | 10 | 10 | + 2 | ± 0 | - 3 | ± 0 |
| Altay Krai | 6 | 16 | 17 | 19 | 19 | + 10 | + 1 | + 2 | ± 0 |
| Kemerovo Oblast | 7 | 14 | 20 | 20 | 20 | + 7 | + 6 | ± 0 | ± 0 |
| Novosibirsk Oblast | 6 | 6 | 15 | 15 | 15 | ± 0 | + 9 | ± 0 | ± 0 |
| Omsk Oblast | 14 | 16 | 16 | 16 | 16 | + 2 | ± 0 | ± 0 | ± 0 |
| Tomsk Oblast | 14 | 14 | 16 | 15 | 11 | ± 0 | + 2 | - 1 | - 4 |
| Tymen Oblast | 7 | 16 | 20 | 20 | 20 | + 9 | + 4 | ± 0 | ± 0 |
| Republic of Buryatia | 6 | 16 | 17 | 19 | 19 | + 10 | + 1 | + 2 | ± 0 |
| Republic of Tyva | 4 | 12 | 14 | 11 | 9 | + 8 | + 2 | - 3 | - 2 |
| Republic of Khakassia | 12 | 20 | 20 | 20 | 20 | + 8 | ± 0 | ± 0 | ± 0 |
| Kransoyarsk Krai | 1 | 8 | 18 | 19 | 19 | + 7 | + 10 | + 1 | ± 0 |
| Irkutsk Oblast | 16 | 18 | 20 | 20 | 19 | + 2 | + 2 | ± 0 | - 1 |
| Chita Oblast | 14 | 18 | 20 | 20 | 20 | + 4 | + 2 | ± 0 | ± 0 |
| Republic of Sakha (Yakutia) | 3 | 12 | 12 | 16 | 16 | + 9 | ± 0 | + 4 | ± 0 |
| Jewish AO | 12 | 17 | 17 | 19 | 17 | + 5 | ± 0 | + 2 | - 2 |
| Chukotka AO | 3 | 1 | 2 | 13 | 6 | - 2 | + 1 | + 11 | - 7 |
| Primorsky Krai | 2 | 16 | 19 | 20 | 19 | + 14 | + 3 | + 1 | - 1 |
| Khabarovsk Krai | 1 | 16 | 16 | 19 | 13 | + 15 | ± 0 | + 3 | - 6 |
| Amur Oblast | 2 | 12 | 17 | 19 | 19 | + 10 | + 5 | + 2 | ± 0 |
| Kamchatka Oblast | 12 | 16 | 16 | 17 | 16 | + 4 | ± 0 | + 1 | - 1 |
| Magadan Oblast | 7 | 16 | 17 | 17 | 19 | + 9 | + 1 | ± 0 | + 2 |
| Sakhalin Oblast | 11 | 14 | 19 | 20 | 20 | + 3 | + 5 | + 1 | ± 0 |
| Kaliningrad Oblast | 2 | 20 | 20 | 20 | 19 | + 18 | ± 0 | ± 0 | - 1 |
| Averages | 8,82 | 14,69 | 17,22 | 17,97 | 17,38 | + 5,87 | + 2,53 | + 0,76 | - 0,59 |

Annex A.6.3. Comparison of regions in terms of similarity of their privatization processes.

Let us draw a comparison between classifications provided in Table 6.2. Table A.3-1 comprises numbers of clusters for 78 regions in which they are involved by each of the aforementioned classifications. At the same time, they ensure the comparability of results, the clusterization in terms of dynamics of the share of non-government housing was conducted by the same 78 regions.

TABLE A.3-1 NUMBERS OF CLUSTERS BY FOUR CLASSIFICATIONS.

| Регионы | Кластеры | | | | Регионы | Кластеры | | | |
|---------------------|----------|----|---|---|----------------------------------|----------|----|---|---|
| | П1 | П2 | Р | Ж | | П1 | П2 | Р | Ж |
| Republic of Karelia | 1 | 1 | 1 | 1 | Ulyanovsk Oblast | 5 | 9 | 9 | 3 |
| Republic of Komi | 2 | 2 | 2 | 1 | Republic of Adygea | 7 | 5 | 8 | 6 |
| Arkhangel'sk Oblast | 3 | 3 | 3 | 2 | Republic of Dagestan | 10 | 9 | 9 | 6 |
| Vologda Oblast | 4 | 4 | 4 | 3 | Kabardino-Balkarskaya AO | 5 | 6 | 6 | 6 |
| Murmansk Oblast | 5 | 2 | 5 | 4 | Karachaevo-Cherkessia | 7 | 1 | 4 | 8 |
| S-Petersburg | 4 | 2 | 2 | 1 | Republic of North-Ossetia-Alania | 2 | 8 | 7 | 6 |
| Leningrad Oblast | 6 | 5 | 6 | 5 | Krasnodar Krai | 6 | 2 | 5 | 6 |
| Novgorod Oblast | 5 | 2 | 5 | 3 | Stavropol Krai | 4 | 1 | 4 | 6 |
| Pskov Oblast | 3 | 4 | 1 | 3 | Rostov Oblast | 7 | 2 | 6 | 6 |
| Bryansk Oblast | 4 | 4 | 1 | 6 | Republic of Bashkortostan | 3 | 2 | 2 | 2 |
| Vladimir Oblast | 4 | 4 | 1 | 3 | Udmurt Republic | 4 | 6 | 2 | 4 |

| | | | | | | | | | |
|-----------------------|---|---|---|---|------------------------------|---|----|----|----|
| Ivanovo Oblast | 5 | 4 | 1 | 3 | Kurgan Oblast | 3 | 4 | 1 | 6 |
| Kaluga Oblast | 4 | 6 | 6 | 3 | Orenburg Oblast | 4 | 1 | 1 | 3 |
| Kostroma Oblast | 3 | 4 | 1 | 3 | Perm Oblast | 6 | 4 | 1 | 4 |
| City of Moscow | 4 | 2 | 2 | 4 | Sverdlovsk Oblast | 7 | 2 | 5 | 3 |
| Moscow Oblast | 4 | 7 | 7 | 4 | Chelyabinsk Oblast | 4 | 1 | 5 | 3 |
| Orel Oblast | 4 | 6 | 6 | 6 | Altay Republic | 7 | 8 | 5 | 6 |
| Ryazan Oblast | 7 | 3 | 5 | 3 | Altay Krai | 7 | 6 | 6 | 6 |
| Smolensk Oblast | 4 | 8 | 6 | 3 | Kemerovo Oblast | 1 | 2 | 6 | 3 |
| Tver Oblast | 3 | 3 | 1 | 3 | Novosibirsk Oblast | 7 | 7 | 7 | 3 |
| Tula Oblast | 7 | 1 | 1 | 3 | Omsk Oblast | 4 | 4 | 3 | 6 |
| Yaroslavl Oblast | 4 | 1 | 1 | 3 | Tomsk Oblast | 5 | 3 | 3 | 4 |
| Republic of Mary-El | 5 | 2 | 3 | 3 | Tymen Oblast | 1 | 6 | 6 | 4 |
| Republic of Mordovia | 8 | 9 | 8 | 3 | Republic of Buryatia | 4 | 6 | 6 | 3 |
| Chuvash Republic | 3 | 5 | 8 | 3 | Republic of Tyva | 9 | 8 | 7 | 4 |
| Kirov Oblast | 3 | 2 | 6 | 3 | Republic of Khakassia | 7 | 1 | 4 | 9 |
| Nizhny Novgorod | 1 | 2 | 1 | 3 | Kransoyarsk Krai | 6 | 5 | 9 | 4 |
| Belgorod Oblast | 4 | 4 | 4 | 6 | Irkutsk Oblast | 4 | 4 | 1 | 4 |
| Voronezh Oblast | 7 | 6 | 6 | 6 | Chita Oblast | 4 | 1 | 1 | 3 |
| Kursk Oblast | 3 | 3 | 1 | 6 | Republic of Sakha (Yakutia) | 9 | 2 | 2 | 4 |
| Lipetsk Oblast | 4 | 4 | 4 | 6 | Jewish AO | 5 | 3 | 1 | 3 |
| Tambov Oblast | 3 | 2 | 5 | 6 | Chukotka AO | 9 | 10 | 10 | 10 |
| Republic of Kalmykia | 9 | 9 | 9 | 3 | Primorsky Krai | 7 | 5 | 8 | 4 |
| Republic of Tatarstan | 3 | 8 | 2 | 7 | Khabarovsk Krai | 1 | 5 | 8 | 4 |
| Astrakhan Oblast | 4 | 3 | 1 | 3 | Amur Oblast | 5 | 5 | 8 | 3 |
| Volgograd Oblast | 4 | 1 | 1 | 3 | Kamchatka Oblast | 1 | 3 | 5 | 1 |
| Penza Oblast | 5 | 5 | 8 | 6 | Magadan Oblast | 1 | 6 | 6 | 1 |
| Samara Oblast | 7 | 1 | 1 | 2 | Sakhalin Oblast | 4 | 3 | 1 | 1 |
| Saratov Oblast | 6 | 6 | 6 | 7 | Kaliningrad Oblast | 7 | 6 | 8 | 2 |

The analysis of the Table A.3-1 shows that of 78 Russian regions only 12 have at least one region that conduct the same behavior in the privatization area that is characterized by the noted 4 indicators, while the other 66 regions conduct a unique behavior. Thus, it become possible to consider 5 types for which there are at least 2 regions with the respective behavior in the privatization area, i.e. the regions that in all the cases fall within the same cluster. These 5 types are represented in Table A.3-2.

TABLE A.3-2. TYPES OF BEHAVIOR BY 4 CHARACTERISTICS (E1, E2, P2, AND H).

| Type | Clusters | Regions |
|------|------------|---|
| 1 | 3, 4, 1, 3 | Pskov Oblast, Kostroma Oblast |
| 2 | 4, 1, 1, 3 | Yaroslavl Oblast, Volgograd Oblast, Orenburg Oblast, Chita Oblast |
| 3 | 4, 4, 4, 6 | Belgorod Oblast, Lipetsk Oblast |
| 4 | 4, 6, 6, 3 | Kaluga Oblast, Republic of Buryatia |
| 5 | 7, 6, 6, 6 | Voronezh Oblast, Altay Krai |