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The review provides a detailed analysis of main trends in Russia's economy in 2012. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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□ Gaidar Institute, 2013

Public Sector and Privatization in Russia in 2012

Public sector dynamics in the Russian economy

The Russia's Government has adopted no other privatization programs over the last two years, as it did in the 2000s, since the Forecast Plan (Program) for the Federal Property and the Guidelines of Federal Property Privatization for 2011–2013 was adopted in November 2010. However, it is these documents that contained numerical data on federal state unitary enterprises (FSUEs) and joint stock companies (JSCs) in which the Russian Federation had a participating interest as of the beginning of a calendar year. Therefore, there is no sufficient information for making an impartial assessment of the dynamics of the foregoing components in the public sector in 2012. Nevertheless, it is possible to assess some basic trends on the basis of the information provided by the heads of federal government authorities and the Federal Agency for State Property Management (*Table 1*).

Table 1

The number of organizations using federal property, and property units registered with the federal property register in the period between 2012 and 2013 (units)

Date	FSUEs	partially state-owned JSCs	FSEs	State-run assets	Land plots	
					units	ha
as of January 1, 2012	...	2933	...	1369446*	...	1007930198
as of mid-October 2012	1927	2587	21127	86630	314490	...
as of February 1, 2013	1795	2325	20246	87382/ about 250,000**	314490/ 238420***	1.2bn / 554m***

* – total property units registered with the federal property register;

** – in the numerator – based on the materials of the Ministry of Economic Development and Trade of Russia on “Federal Property Management” to the State Program on Federal Property Management through to 2018, in the denominator – based on the report made by the Minister of Economic Development, A. R. Belousov at the Russia's Government's meeting held on February 7, 2013;

*** – in the numerator – total including non-registered lands, in the denominator – only registered lands.

Source: www.rosim.ru; www.economy.gov.ru, Deputy Minister of Economic Development, head of the Federal Agency for State Property Management O.K. Dergunov's report on “The Enhancement of State Property Management Quality” made at the Collegium of the Ministry of Economic Development and Trade of Russia on November 30, 2012; the Federal Agency for State Property Management's materials on “Federal Property Management”, 2013; the report made by the Minister of Economic Development, A. R. Belousov at the Russia's Government's meeting held on February 7, 2013.

The number of partially state-owned JSCs decreased by more than 1/5 (approx. by 600 units) over 13 months (since early in 2012 to February 1, 2013), including the period between mid-October 2012 and early in February 2013 – approx. by 260 units. The number of FSUEs reduced approx. by 130 units, state-run enterprises increased by more than 750 units for a fraction of 4 months. Total area of the federally owned lands increased by 19% (or just short of 200m ha) over 13 months (in the period between 2012 and February 1, 2013).

Thus, as of February 1, 2013, 1795 FSUEs, 2325 partially state-owned JSCs, 20246 federal state establishments (FSE) were the key property units of the federal property management system.

Most (77%) of the unitary enterprises were governed by owners represented by federal executive authorities jointly with the Federal Agency for State Property Management, 15% of FSUEs were owned by state academies of sciences (Russian Academy of Sciences (RAS) and

sectoral academies of sciences), 4% by the Ministry of Defense of Russia, another 2% of enterprises were governed through different state corporations (SCs) and the Presidential Property Management Department.

Fully state-owned JSCs governed by the Federal Agency for State Property Management accounted for 52% of 2325 JSCs, whereas JSCs with less than 2% of state-held interest accounted for 25% of these.

With regard to the management of partially state-owned JSCs, Minister of Economic Development A. R. Belousov pointed out in his report at the Russia's Government Meeting on February 7, 2013 that public sector employees accounted for 65% of the management of state corporations (inclusive of audit committees). In 2011, 1,500 professional directors, including 362 independent directors and 1143 professional agents, were appointed to the management body of about 700 partially state-owned JSCs.

However, the materials of the Ministry of Economic Development and Trade to the State Program on Federal Property Management through to 2018 contain information about 1512 professional agents and 601 independent directors. These figures are most likely to belong to 2012, because the figures for 2011 provided by the head of the Ministry of Economic Development and Trade of Russia are more or less correspond to those published in the previous review of the Russia's economy. However, the issue of professional directors in federally owned JSCs remains to be unclear. One may assume that a share of JSCs with professional directors increased notably in the last year in response to a decrease in the number of partially state-owned JSCs rather than growth in the number of professional directors.

Sixty six (or 2.8%) of such economic agents (a total of 2325 units) are included into a special list, and decisions on the key management issues of such economic agents are subject to Russia's Government decrees. However, most of such companies have no key performance indicators linked to approved provisions on senior management remuneration. Only 20 JSCs of the special list 66 JSCs have provisions on remuneration and 18 have approved key performance indicators which are linked to approved provisions on labor remuneration.

According to the Ministry of Economic Development and Trade, as part of the development of Russia's Government draft orders on the nomination of candidates to boards of directors (supervisory committees) of the JSCs included into the special list, the number of independent directors in the board of directors of such companies will be much (by 45%) bigger in the 2012–2013 corporate year (from 85 persons in the 2011–2012 corporate year to 123 persons in 2012–2013). However, the number of professional agents and state employees will be slightly smaller (from 222 persons in 2011–2012 to 212 persons in 2012–2013) and (from 165 persons in 2011–2012 to 164 persons in 2012–2013)¹ respectively.

However, according to mass media², the Ministry of Economic Development and Trade of Russia suggested to increase from 140 to 163 government employees in the board of directors of the OJSCs included into the special list, which was approved by the Russia's Government Order No. 91-p.. It is the new 6 companies (e.g., Russian Hippodromes and Avtomatika Concern) included in the list that were partially responsible for the increase.

However, this process has an effect on the companies which were included into the list long time ago. For example, only 6 of 16 leading companies (Gazprom, Russian Railways, Alrosa, Rostelecom, etc.) had 19 public sector employees in the board of directors in 2012

¹ www.economy.gov.ru, December 5, 2012.

² Ushakova D., Public sector employees again will be assigned to watch businesses, www.izvestia.ru, December 17, 2012.

with 45 nominees for 2013, thereby the number of public sector employees is expected to increase almost in all of these companies (except for State JSC Oboronkomplex). All in all, the number of companies, in which the number of public sector employees is going to increase (17 units), is of a little bigger than that of the companies (11 units) in which the number of public sector employees is declining (e.g., OJSC Prioksky Non-Ferrous Metals Plant, the State Research Center of the Russian Federation Concern CSRI Elektropribor, JSC, and the Center for Shipbuilding and Maintenance Technologies).

The number of independent directors was suggested to change almost the same way, i.e. increase their number in 19 companies, decrease in 11 (including Vneshtorgbank, Russian Agricultural Bank, Zarubezhneft, Channel One Russia, Russian Space Systems), while the total number of independent directors was scheduled for increase by 1.2 times (from 90 to 108 persons).

The real estate portfolio owned by federal government bodies includes more than 430,000 buildings and facilities located on 72,000 land plots with a total area of 32m ha. Buildings, facilities and premises account for 93%, movable property for about 5%, aircrafts and sea ships for another 1% of the state-run enterprises (87,382 units).

The aggregate nominal value of all of the foregoing assets registered with the federal property register amounts to nearly Rb 12 trillion. However, the Head of the Ministry of Economic Development and Trade of Russia stated that this value is a lot bigger and their real market value is more than Rb 100 trillion. It was the first time since Such figures were officially announced for the first time ever.

It is to be recalled that in March 2010 the Federal Agency for State Property Management published information on that the state property register had been completed for the first time since 1991. Systematic work on the register preparation began upon the approval of the Provision on Federal Property Accounting and the Federal Property Register Maintenance in the Russia's Government Decree dd. July 3, 1998, No. 696. The currently existing Provision on Federal Property Accounting was adopted nine years ago in response to the Russia's Government Decree dd. July 16, 2007, No. 447 "On the Enhancement of Federal Property Accounting", when the previous provision ceased to be in force.

Thus, the state property register was prepared over a period of about 12 years, i.e. throughout the entire decade of the 2000s, whilst such information was needed badly as early as the first half of the 90s, at least upon the completion of the voucher privatization in the mid-1994 when the privatization process remained intensive enough. The foregoing is a good illustration of the quality of state economic policy administration, in particular of how the state performed its functions.

This is why the dispersion of state property appraisals is by no means surprising. Its total nominal value depends directly on the registry data completeness in terms of its quantitative and qualitative characteristics¹. With regard to the fair market value, it depends largely on the category of assets and appraisal methods. The blocks of shares in joint stock companies which were established long time can be valued against stock market quotations, whereas such assets as unitary enterprises, public establishments, lands, and real estate are hard to appraise.

For example, the principal real-estate appraisal methods are based on the comparative approach (available data on recent similar transactions), cost-based approach (based on full re-

¹ In his report at the Russia's Government meeting on February 7, 2013 the Head of the Ministry of Economic Development and Trade of Russia said that federal property inventory was scheduled to be completed this year.

production net of depreciation) and income-based approach (based on estimates of future incomes generated from the use of assets). It is obvious that the foregoing parameters can hardly be relied upon even for the appraisal of real estate itself, let alone the assets owned by unitary enterprises and establishments, because of the lack of similar transactions or the non-recurrent nature thereof. Well-known are the problems of taxation of physical bodies' property which occur because of the difference in the appraisal of apartments performed by the Bureau of Technical Inventory (BTI) and the appraisal based on residential property market prices, as well as when cadastral value of a land is determined. In addition, a big share of state property is used in non-profit activities (e.g., education, healthcare) and during performance of public functions (e.g., national defense, security), and the income generated from these activities and functions is an indirect result of its functioning.

This is why the provided market value assessment of state-owned assets is rather a potential value.

A circumstantial evidence of this is the market value assessment of an interest in the companies included into the MICEX index and directly owned by the Federal Agency for State Property Management (Rb 2.3 trillion)¹, and relatively moderate values of the budget revenues in the 2000s (much higher than in 2011–2012 though).

According to the Rosstat's public sector composition monitoring, the quantity dynamics of public sector economic agents in the period between the mid-2010 and mid-2012 can be depicted as follows (*Table 2*).

As is seen from *Table 2*, the total number of public sector organizations decreased by 7.5% over the two years (between July 1, 2010 and July 1, 2012) (or by more than 5,600 units), to amount to about 69,200 units as of July 1, 2012.

It was the 27.0% decrease (or by almost 1950 units) in the number of unitary enterprises that was mainly responsible for the foregoing. Though being relatively less bigger, the reduction (by 5.6%) in the number of public establishments was more significant in absolute magnitude (by more than 3,400 units). By July 1, 2012 the number of business entities with more than 50% of state-held interest reduced most, by 8.2% (or approx. by 320 units). However, the number of business entities in which more than 50% interest is held by public sector business entities increased by 4.4%, a gain of about 100 units. As a result, as of the beginning of 2011, the number of these economic agents exceeded 2,400 units to reach its maximum since they were included into the public sector of the economy at the very end of 2002.

Table 2

The number of public sector organizations registered with territorial offices of the Federal Agency for State Property Management and government bodies for management of state-owned property of the constituent territories of the Russian Federation in the period between 2010 and 2012

Date	Total*	SUEs, including state-run enterprises	Government agencies	Partially state-owned business entities	
				over 50% of state-held interest (interest)	over 50% interest is held by public sector business entities
as of July 1, 2010*	74867**	7230	61493	3915	2229
as of January 1, 2011*	73498**	6761	60266	4051	2420

¹ The amount would increase up to Rb 6.1 trillion if a state interest in the most expensive companies with indirect state control (e.g., Gazprom, Rosneft, Sberbank, Rostelecom) is taken into account. Russia has evaluated its own property for the first time ever/ Vedomosty, 08.02.2013, www.finance.rambler.ru

as of July 1, 2011*	72047**	6245	59483	3928	2391
as of January 1, 2012*	69689**	5805	57839	3733	2312
as of July 1, 2012*	69251**	5282	58049	3593	2327

* – federal property accounting is subject to the Russian Government Order dd. July 16, 2007, No. 447, “On the Enhancement of Federal Property Accounting”;

** – including organizations whose state registered articles of association contains no specific types, and excluding joint stock companies in which more than 50% interest is held on the basis of joint state and foreign ownership.

Source: On the development of the public economic sector in the Russian Federation in H1 2010 (pp. 7–11), in 2010 (pp. 7–11), in H1 2011 (pp. 7–11), in 2011 (pp. 7–11), in H1 2012 (pp. 7–11). M., Rosstat, 2010–2012.

Over a year from mid-2011 till mid-2012 total number of public sector companies reduced by 3.9% (or by almost 2,800 units).

It was a reduction of 15.4% (or by almost 1,000 units) in the number of unitary enterprises that was mainly responsible for the foregoing. The reduction in the number of public agencies was far smaller, only 2.4%, its absolute value was found to be bigger vs. unitary enterprises (more than 1,400 units), while public government agencies saw an increase in absolute number in H1 2012. At the same time, the number of business entities with more than 50% state-held interest decreased by 8.5% (or more than 330 units). The number of business entities in which more than 50% interest is held by public sector business entities reduced by 2.7% (more than 60 units), whereas their number increased a bit in H1 2012, like in the case with public agencies.

The latest crisis raised a question of its effect on the state as manufacturer of (works, services) in the economy. The Rosstat’s monitoring only partially supports the view of growing state participation in different final figures of economic performance (*Table 3*).

Table 3

**Public sector’s share by basic economic indicator in the period between
2009 and 2012, %**

Indicator	2009	2010	2011	H1 2012
1	2	3	4	5
Volume of shipped goods produced by the company, completed works and services wo subcontracting :				
- mineral resources production	11.5	9.8	16.5	16.6
- fuel and energy resources production	11.1	9.0	16.7	16.5
- manufacturing sector	9.5	8.7	9.9	9.3
- production and distribution of electric power, gas, and water	14.0	17.8	24.0	25.8
Scope of construction works performed w/o subcontracting	3.8	4.1	4.0	3.9

cont’d

1	2	3	4	5
Passenger turnover at transportation companies *	63.2	56.1	65.3	61.7
Volume of commercial transportation (dispatch) of cargos by transportation companies (net of companies involved in pipeline transportation)	76.6	78.4	38.1	79.1
Commercial cargo turnover performed by transportation companies (net of companies involved in pipeline transportation)	93.8	93.6	36.4	94.3
Communication services **	13.9	15.2	13.4	13.8
In-house research and development costs	74.4	73.4	73.8	72.5
Volume of paid services rendered to the general public	16.5	18.9	18.8	18.6
Capital investments from all sources of financing ***	22.8/ 17.1	24.5/ 17.8	28.8/ 21.3	26.0/ 19.7
Net proceeds from sales of goods, works, services (net of VAT, excise taxes and other similar mandatory payments)	10.6	18.9	11.6	11.4
Average staffing number	24.6	24.9	24.9	25.7

* – save for municipal electric passenger transport organizations;

** – net revenues from sale of goods, products, works, services (net of VAT, excises and other mandatory payments);

*** – in the numerator, net of small enterprises and volume of investments which can't be observed through direct statistical methods.

Source: On the development of the public economic sector in the Russian Federation in 2009 (pp. 13, 45, 47–48, 49, 52, 60–61, 62, 66–67, 87), in 2010 (pp. 13, 46, 48–49, 50, 53, 61–62, 63, 67–68, 88), in 2011 (pp. 13, 35, 37–38, 39, 42, 50–51, 52, 56–57, 77), in H1 2012 (pp. 13, 33, 35–36, 37, 40, 42–43, 44, 48–49, 69). M., Rosstat, 2010–2012.

However, as it can be seen from *Table 3*, in 2011 and H1 2012, like throughout the entire period of the 2000s, that the public sector had an insignificant share in most indicators (not more than 15–20%) with a slightly bigger share in the field of investments (20–30%) and employment (about 25%).

However, official statistics reported an increase in 2011–2012 vs. 2009 in the public sector's participation share in mineral production (including fuel and power), в production and distribution of electric power, gas and water, communication services, capital investments, paid services to the general public, and such a generalized financial indicator as net proceeds from sales of goods, works, services (net of VAT, excises and other mandatory payments)

The public sector had most substantial share in the production and distribution of electric power, gas and water, approaching 26% (against 14% in 2009) at the end of H1 2012. It should not be left unnoticed that the public sector's share increased substantially to 16.5% in the mineral production (including fuel and power) in H1 2012 against 10 to 11% in 2009 – 2010.

A special emphasis should be placed on cargo transportation. On the one hand, the 2011 statistics showed a drastic decline in the public sector's share in cargo transportation and cargo turnover figures (up to 36–38%), whereas in H1 2012 their values resumed the level of 2009–2010 (more than 76–78% and 93% respectively). On the other hand, in H1 2012 a share of the public sector in the passenger turnover of transport companies was found to be far less than in 2008–2009¹ after a notable increase in 2011 (more than 65%).

A more sophisticated analysis of the situation reveals that the public sector was dominating (railway cargo shipment and passenger transportation, forest regeneration, production of sodium carbonate, domestic R&D costs) only in a few types of activity at the end of 2011 and in H1 2012.

In most other cases the share was less than 20%, save for oil production, including gas condensate (in H1 2012 the public sector accounted for 21.4% against 20.9% in 2011), cargo and passenger air transportation, as well as vehicular traffic (net of small businesses), in all statistically recognized types of paid services² in which the public sector accounted for less than a half anyway. In addition, the public sector accounted for more than 20% in the inland water transport industry in H1 2012.

It should be noted, however, that the foregoing data should rather be regarded as minimal given the complexity of measuring the public sector's share for the following reasons: (1) limited reliability of the Rosstat's data amidst the multistage corporate control system employed at many state-owned enterprises, which excludes several levels (by analogy with private companies), (2) impossible impartial and reliable assessment of the state indirect effect

¹ The foregoing trends need to be adjusted as to the results shown in 2012 in general for the figures describing the cargo transportation sector.

² In this context, it is the transport, medical, convalescence, and educational services that can be highlighted in statistical reports.

on property relations based on the results of the anti-recessionary measures taken in 2008 – 2009 and (3) potential incompleteness of accounting by public agencies.

Privatization Policy

Since the Privatization Program for 2011–2013 adopted by the Russia's Government in November 2010 covered a three-year period at the moment of its approval, it was subsequently amended and restated, more intensively in 2012 than in the preceding year. A total of 36 respective legal acts and regulations have been adopted by the Russia's Government Order dd. November 27, 2010, No. 2102-p since the adoption of the Forecast Plan (Program) of Federal Property Privatization and the Guidelines of Federal Property Privatization for 2011–2013, of which 24 were adopted in 2012 against 11 ones in 2011 (another one was adopted as early as the very end of 2010).

The amendments made in 2012 are distinguished mostly by a serious radicalization of privatization plans with regard to the largest companies in which a state-held interest was allowed to be reduced by extending a list of assets proposed for privatization.

It is to be recalled that the original version of the existing privatization program included 10 such companies, whereas in 2011 it was only a decrease in a state interest in the Federal Hydrogeneration Company (RusHydro) and United Grain Company (UGC) that was specified, retaining a 50% control interest plus one share.

All in all, the process of privatization of the largest JSCs in 2012–2013 was specified by the Russia's Government Order dd. June 20, 2012, No. 1035-p.

The United Grain Company (the state ceased to participate in the charter capital of the company), Sovcomflot (50% less one share), Rosagroleasing (49.9% less one share), VTB Bank (25.5% less one share), Russian Railways (25% less one share), Sberbank (7.58% less one share)) were referred to as the largest companies, in which (except for Sberbank and Russian Railways) the state is going to discontinue its participation by 2016. The same was announced with regard to many other companies, namely Zarubezhneft, RusHydro, INTER RAO UES, Sheremetievo International Airport, Aeroflot, Rosselkhozbank and ALROSA). A state-held interest is subject to reduction in some of the companies such as Transneft, FGC UES, UralVagonZavod (up to 75% plus one share), the United Shipbuilding and Aircraft Building Corporation (up to 50% plus one share)).

In addition, in 2012 it was suggested to reduce by 90% a state-held interest in OJSC ROSNANO by issuing and selling additional shares; beginning with 2013, to sell Rosneftgaz's interest and discontinue its participation in Rosneft by 2016 (provided that OJSC Rosneftgaz is allowed to act as investor during privatization of fuel-and-energy companies before the beginning of 2015 and submits a program of financing of such transactions, providing for the use of dividends from the companies' shares held by the said joint-stock company).

In the meantime, in 2012 Rosneft itself closed the largest transaction in the history of the Russian market for corporate. In the fall of 2012 Rosneft was reported to have bought TNK-BP.

Different documents were already signed with the both of the previous shareholders (British Petroleum and AAR Consortium comprising Alfa Group, Access Industries and Renova Group of Companies) which provide for selling of the shareholders' equal interest (50% each) in TNK-BP. The AAR Consortium's interest was valued \$28bn, whereas the BP's only \$17.1bn, but the latter also must receive the Rosneft's treasury shares (12.84%) being on the

BP's books. In addition, BP entered into an agreement on the purchase of an extra block of NK Rosneft shares (5.66%) from OJSC Rosneftegaz which holds more than 75% of Rosneft shares. Once these transactions have been closed, BP would hold 19.75% of Rosneft shares, including a 1.25% interest which BP already holds. The transactions are expected to be closed in H1 2013 as soon as they are approved by regulating authorities.

The foregoing will definitely strengthen Rosneft's position both in the Russian fuel and energy industry and the world market. However, the need for a substantial amount of financial resources (inclusive of fundraising) to close the transactions might minimize a possible effect of optimization of assets and production performance, increased capitalization, and improved image of the company, which in turn may have an impact on privatization perspectives in the future.

Though the privatization program for 2011–2013 has been extended substantially, no changes have been made in the estimated amount of federal budget revenues. In this respect it is worth recalling that the forecast plan includes a maximum of about Rb 1 trillion of privatization revenues to be generated within the period between 2011 and 2013, given the market conditions and in case the Russia's Government makes specific decisions on privatization of the largest companies' shares which are highly attractive in terms of investment. Without considering the foregoing aspects, only Rb 6bn of revenues from privatization was estimated for 2011, and Rb 5bn for 2012 and 2013 each.

It should be taken into account within the context of analysis of the federal budget revenues from privatization and sale of state property that as early as 1999 the revenues from the principal part of such assets (shares, and also land plots in 2003–2007) began to be referred to as sources of budget deficit financing. Revenues from sale of other assets (different types of property and land plots) were included into the revenue side of the budget.

Neither the main part, nor the annexes of the Federal Law dd. December 3, 2012, No. 216-FZ, "On the Federal Budget for 2013 and for the Planning Period for 2014 and 2015" contain information on any specific amount of revenues from privatization. The annexes thereto relating to sources of budget deficit financing contain only a summary of other types of sources without any specific reference.

The same is true with a project which the Russia's Government submitted to the State Duma for consideration. It is only an explanatory note attached thereto that specified revenues from federal property privatization as a stand-alone source of federal budget financing, in addition to public borrowing.

It was announced that privatization of blocks of shares in large Russian companies which may attract investments would continue. Almost all of such companies were included into the list provided in the privatization program for 2011–2013 (as amended and restated). Such privatization will be based on the Russia's Government's decisions in setting specific dates and methods of privatization, and with due consideration of the market situation as well as recommendations of the leading investment advisors. Such measures would allow the federal budget to generate revenues of Rb 427.7bn in 2013, Rb 330.8bn in 2014, Rb 595.1bn in 2015.

Comparing the foregoing data with the estimates of the Ministry of Finance of Russia, one may see a notable increase in forecast revenues from state property privatization vs. the data

that were available two years ago in the core documents of the Ministry¹, let alone the figures provided by the privatization program for 2011–2013 (*Table 4*).

Table 4

Analysis of federal budget revenues from privatization in the period between 2011 and 2015, billions of rubles

Source	2010	2011	2012	2013	2014	2015
The Forecast Plan (Program) for Federal Property Privatization for 2011–2013		6.0	5.0	5.0		
Fiscal Policy Guidelines for 2011 and the Planning Period for 2012 and 2013		298.0	276.1	309.4		
Fiscal Policy Guidelines for 2012 and Planning Period for 2013 and 2014		298.0	276.1	309.4	300.0	
Fiscal Policy Guidelines for 2013 and Planning Period for 2014 and 2015				380.0	475.0	385.0
Draft of the federal budget for 2013 and the Planning Period for 2014 and 2015 (explanatory note)				427.7	330.8	595.1

Though in the relatively recent Fiscal Policy Guidelines (FPG) for 2013 and the Planning Period for 2014 and 2015 dated July 18, 2012 revenues from privatization were forecasted to increase by 12.6% (against Rb 380bn) in 2013, they are expected to decline by 30% (against Rb 475bn) in 2014. Thus, the forecast of privatization revenues was considerably higher for 2015, by more than 1/5 times (against Rb 385bn).

It is hard to say whether such goals are attainable or not, given the specific amount of federal budget revenues from privatization, because it depends both on the list and value of assets to be privatized, which depend on evaluation methods and market conditions.

In general, commitment to market conditions and recommendations of the leading investment advisors having the required resources, experience and business record, given the government exclusive right in the privatization sector and actual lack of external control over privatization make it possible to obtain a decent compensation for privatized assets. The existing mechanism of budgeting process, when the text of adopted budget law contains no instructions for privatization in the context of budget revenues, leaves a wide and unlimited space for making any decisions in respect to the list, terms, and sale-format of privatized assets.

For example, the amendments and modifications relating to ROSNANO and Rosneft, which were made in June 2012 to the privatization program for 2011–2013, have no direct relationship with the generation of federal budget revenues, and the allowance for allocation of revenues from privatization of JSC ALROSA (with coordination of sale of shares held by regions and municipalities) to the infrastructural development of the Republic of Sakha (Yakutia) is likely to encourage a reduction in budget revenues, all the more so, because no scale and proportion of such usage of privatization revenues are specified whatsoever.

Furthermore, it was specified in the explanatory note to the federal draft law “On the Federal Budget for 2013 and the Planning Period for 2014 and 2015” that the formation of the Reserve Fund and the National Wealth Fund allows for a part of oil and gas extra revenues to be used as a substitution for federal budget financing sources subject to a decision by the Russia’s Government².

¹ The Fiscal Policy Guidelines for 2011 and the Planning Period for 2012 and 2013, the Fiscal Policy Guidelines for 2012 and Planning Period for 2013 and 2014.

² Though no information about it can be found in text of the Federal Law dd. December 3, 2012, No. 216-FZ “On the Federal Budget for 2013 and the Planning Period for 2014 and 2015”.

A similar possibility of financial maneuvering was allowed for by the amendments to the previous federal budgets: for 2011 and the Planning Period for 2012 and 2013¹ and for 2012 and the Planning Period for 2013 and 2014², when oil and gas revenues which were generated during the implementation of the foregoing budgets were allowed to be used for the substitution of Russia's borrowings and/or revenues from sale of state-held interest and other forms of state-held interest in the charter capital of companies, or for other legally supported goals³.

In addition, a subordinate role of privatization revenues in financing the federal budget deficit is worth noting, because these revenues are much smaller (by more than three times in 2013–2014, by more than two times in 2015) than the amounts of the expected public borrowings.

However, in addition to a possible adverse effect on the implementation of the privatization program due to a severe aggravation of the macroeconomic situation (e.g., a second round of crisis or global recession), there are visible risks relating to poor transparency of privatization processes, lack of transparency required for plans and methods of privatization of large companies, and the state gives no reasons (arguments) for decisions it makes. Given always an acute and controversial public response to privatization of large companies, the latter remains most important so that the 'rules of the game', mutual obligations of the state and buyers are clear for the general public. Also, there is a serious drawback in making no analysis of potential effects of privatization, practicability, alternative costs, potential risks, and impact on the development of specific markets, industries, regions, and the national economy at large.

So far the announced abrupt turn in the course of privatization away from public control in more than 10 largest nationally important companies has not been accompanied by any balancing measures, except for the possibility for the Russian Federation to exercise a special right ('golden share') in the management of less than a half of joint-stock companies (United Grain Company, Zarubezhneft, RusHydro, Aeroflot and ALROSA).

Regardless of many statements on the need to make the privatization process more transparent by the beginning of March 2012, to date, government authorities have provided no generalized data on the privatization process progress in 2012. No such data, except for information on the amount of budget revenues, was provided in the report of the Head of the Ministry of Economic Development and Trade at the Russia's Government meeting on February 7, 2013.

Indirect signs, the data provided in the foregoing report on that a total of 284 unitary enterprises have been included into the privatization program over the last three years, of which 70% have already gone public, and the data on privatization of FSUEs in 2010–2011 (a total

¹ Under the Federal Law dd. December 13, 2010, No. 357-FZ "On the Federal Budget for 2011 and the Planning Period for 2012 and 2013" (as amended and restated by the Federal Law of June 1, 2011, No. 105-FZ).

² Under the Federal Law dd. November 30, 2011, No. 371-FZ "On the Federal Budget for 2012 and the Planning Period for 2013 and 2014" (as amended and restated by the Federal Law of June 5, 2012, No. 48-FZ, which raised the threshold value. If the amount of oil and gas revenues exceeds this value, they may be used as described above).

³ The latter refers to the preceding year budget only – amendments made by the Federal Law dd. July 28, 2012, No. 127-FZ.

of 205 units)¹ may lead to a conservative conclusion of privatization of about 100–140 enterprises in 2012.

With regard to privatization of blocks of shares, mass media previously reported with reference to the press office of the Federal Agency for State Property Management that 273 blocks of shares in joint stock companies² were sold in 2012 as part of the privatization program, which is approx. one fourth less than in the preceding 2011. This figure exceeds the figure of the pre-crisis period of 2008–2010, whereas it is less than that reported in 2006–2007.

A total of six privatization transactions, each being valued more than Rb 1bn, were closed or nearly closed in 2012.

The largest of the six transactions was closed in September, when a 58% interest in Sberbank held by the Central Bank of Russia was sold at Rb 159.3bn. The transaction features a seller special public status which differed from the normal role of government authorities when it comes to property management, and gave rise to special amendments to the budget to allow budget revenues to be generated from this source. It was established in the beginning of December 2012 that a part of the revenues generated by the Central Bank of Russia from the sale of the Sberbank shares, whose amount was calculated as the difference between the amount of revenues from the sale of the said shares and their book value, net of sale costs of the said shares, were to be transferred to the federal budget by reducing accordingly a part of the revenues generated by the Central Bank of Russia in 2012³, which is payable to the federal budget.

A second largest transaction took place late in September 2012, when a 100% interest in SG-Trans OJSC was sold at Rb 22.77bn. SG-Trans is the largest railway carrier in Russia, which is involved in transportation, storage and sale of liquefied petroleum gas, and has a big stock of special railway tankers. Sistema JSFC⁴ won the tender in which four bidders participated. Renaissance Capital acted as bidding process organizer.

In addition, in the beginning of the fall of the preceding year, BNP PARIBAS BANK CJSC which in compliance with the Russia's Government Order dd. November 3, 2011, No. 1920-r acted as bidding process organizer of a federally held interest in Apatite OJSC, 26.67% of a state-held interest in this company was sold, accounting for about 20% of the charter capital thereof. The best bid (Rb 11.1bn) was offered by FosAgro OJSC (the agent received an offer from two bidders, whereas a total of six bids were received from Russian and foreign legal entities, of which only three submitted their bids)⁵.

A state-held interest (55% of the charter capital or 73.33% common shares) in the Vanino Commercial Seaport (the Khabarovsk Territory) was sold at Rb 15.5bn to MECHEL-Trans LLC, and VTB Capital was appointed as the sole executer of the state order to sell on behalf of the state an interest in the foregoing OJSC as early as February 2012.

¹ However, this value reflects the number of FSUEs on which decisions on terms and conditions of privatization were made, but they haven't gone public yet. For example, in 2011 only a total of 42 JSCs were registered at 143 enterprises which were subject to privatization according to relevant decisions.

² Russia will generate about Rb 3 trillion from privatization in four years, 07.02.2013. RBK provided this information with reference to the Federal Agency for State Property Management in January 16, 2013, though no such information is available in the Federal Agency for State Property Management's website.

³ Under the Federal Law dd. December 3, 2012, No. 247-FZ, "On the Federal Budget for 2012 and the Planning Period for 2013 and 2014".

⁴ SG-Trans will pay 22.77bn Rb to buy Sistema JSFC), www.OilCapital.ru, September 28, 2012.

⁵ www.rosim.ru, 07.09.2012.

A far less amount (Rb 2.2bn) was generated from a blocking shareholding (25.5%) in the Murmansk Commercial Seaport, which was sold to two buyers (SUEK OJSC and Alfa Capital Holdings (Cyprus) Limited). The transaction was arranged by Raiffeisen Investment LLC¹.

Another large transaction in 2012 was the acquisition by Summa Group of an interest (50% less one share) in the United Grain Company by private subscription. A total of Rb 5.951bn was generated. The transaction was arranged by Troika Dialog, a subsidiary of Sberbank, which selected the winner.

There were smaller privatization transactions, namely sale of an interest in the OPKH Stud Farm Leninsky Put OJSC (the Krasnodar Territory, 100%, Rb 1869.969m) and the Ob-Irtysh River Shipping Line (Khanty-Mansyisk, 25.5%, Rb 474.589m).

The Russia's Government Decree dd. August 27, 2012, No. 860, on "The Provision on Organization and Sale of State or Municipal Property in Electronic Form" which was long awaited after the amendments to the law on privatization in May 2010, became an important event from the privatization process point of view.

It was a negative background, which occurred for the first time over the last few years, that became the key difference between the privatization process of 2012 and in the preceding year.

The negative background was triggered by the notorious events relating to Oboronservis JSCo in the fall of 2012. Furthermore, the sale of assets which were considered investment-attractive was also responsible for it.

The Federal Anti-Monopoly Service (FAS Russia) revealed signs of violation during the sale, by private subscription, of an interest in the United Grain Company (UGC) in May 2012, namely by 'preventing economic agents from buying additional shares issued by UGC thereby reducing the number of potential investors'. In this respect, the FAS Russia forwarded a letter to the Russia's Government in which it suggested to sell the UGC shares through public offering.

There were 6 bidders, including Louis Dreyfus, one of the world's largest grain traders. It was only Basic Element, whose interests were represented by Kuban Agricultural Holding Company, that expressed its discontent about the form of placement of UGC additional shares. In the mid-May Basic Element announced that 'the qualified investor selection criteria are nontransparent' and 'the placement of additional shares in the form of private offering fails to comply with the principles of free competition'². Though shortly after that announcement a case was filed against UGC OJSC and Troika Dialog CJSC to the FAS Russia, but it was finally dismissed for absence of violations of the competition act by the foregoing economic agents.

Published facts of misuse and withdrawal of assets from the recently (in the fall of 2008) established Oboronservis JSCo reveal clearly the totality of the problems being faced in the field of state property management and privatization, namely (1) lack of well-defined criteria of the need for privatization, in particular with respect to different types of activity in the military and national defense sector, (2) controversial advantages of corporatization in terms of retaining assets and serving the interests of the state, (3) the issue of manageability by and accountability to the state of integrated entities established at the initiative of the state, (4) it impossible for the state to get a compensation for previously contributed assets if their sale has

¹ www.rosim.ru, 25.12.2012.

² Lanin D., FAS Russia is ready to dispute the UGC privatization, www.bfm.ru/news, June 15, 2012.

been initiated by a holding company, while being exposed to the risk of a situation when a 'shell' of the parent company, which have sold its most valuable production or financial assets, becomes an entity for corporate governance or subsequent privatization, (5) a wide space for corruption becomes available in evaluating assets to be sold only subject to the provisions of the Federal Law "On Valuation Activity in the Russian Federation" in case of refusal to apply a price established by government authorities as the lowest price threshold in selling certain facilities.

It is to be recalled that Oboronservis JSCo is a large integrated entity comprising 9 sub-holdings, a 100% interest (less one share) of each was contributed to its charter capital. The same mechanism of asset control was provided for unitary enterprises and JSCs when the sub-holdings' capital was built up. Total number of enterprises which were scheduled for integration into the sub-holdings is impressive, even after some adjustments in 2011: Oboronstroï (58 units), Remvooryzheniye (56 units), Spetsremont (45 units), Aviaremont (39 units), Voentorg (34 units), Agroprom (30 units), Kransyaya Zvezda (20 units), Oboronenergo (11 units), Slavyanka (4 units). It is worth noting that Oboronservis JSCo itself, whose 100% interest is held by the state, was in the list of strategically important enterprises only for a year and a half (from the end of 2009 till April 2011) regardless of an obvious strategic importance of its affiliates.

The decision of the military entity's new management to suspend the sale of military assets and conduct inventory of the previously closed transactions was one of the short-term effects of the Oboronservis JSCo case.

A wider look at the situation from the perspective of the public sector at large would actualize an issue of the need and conditions for selling non-core assets of partially state-owned companies (JSCs in the first place) whose diversified nature may have both an adverse and a positive effect on the evaluation of an offered state-held interest.

In this respect, the Ministry of Economic Development and Trade and the Federal Agency for State Property Management suggest that the companies included into the forecast plan of privatization for 2011–2013 should not sell their non-core assets, because preliminary sale of such assets may deteriorate their investment attractiveness and result in less budget revenues. Thus, making a list of privatization for companies which are going to be released from the obligation to sell their non-core assets, inevitably becomes the subject matter to be agreed upon between different groups of interests, including those companies which generally prefer to retain such assets for many reasons (established relationships, the possibility for the personnel to receive benefits in kind, social responsibility, prestige, etc.). The scale of the asset disposal process would become quite limited without non-core assets of most structurally diversified large companies¹.

The Sale of a 100% interest in SG-Trans was disputed by Rosneft whose subsidiary RN-Trans filed a lawsuit against the bidding process organizer, LLC Renaissance Broker, to invalidate the restrictions on participation in the privatization process. Initially, the court took the side of RN-Trans by prohibiting Renaissance Broker to further proceed with the sale of the federally-held shares. Later, however, the court lifted the injunction, and Rosneft renounced its claims and dropped the case. According to unofficial information, it happened

¹ Kiseleva M., Privatization will help state-owned companies retain their non-core assets www.izvestia.ru, November 22, 2012.

after Sistema JSFC, a new owner of SG-Trans, provided Rosneft with a guarantee to enter with Rosneft into a long-term contract on transportation of liquefied petroleum gas¹.

Given the FAS Russia's refusal to allow Gazpromtrans to participate in the transaction, one may see a trend for prohibiting the largest partially state-owned companies from participation in privatization. Even earlier, late in 2011, Gazprom Energoholding withdrew its claim to buy IES Holding, the largest private energy company. Initially, Gazprom entities were expected to hold a 75% interest in the new entity.

A resale, as reported in January 2013, of a state-held interest in the Vanino Commercial Seaport which was purchased by MECHEL a month and a half prior to the resale, raised the question of not only valuation of privatized assets, but also a real motivation of Russian businesses in the course of a new wave of privatization.

On the one hand, the MECHEL management explained this transaction by the need to look for a base to sale the coal from the Elginsk minefield in Yakutia. The management looked into the option of constructing a new coal terminal as an alternative to the purchase of the port. Six bidders other than MECHEL participated in the tender for the state-held interest. Finally, the state-held interest was sold at Rb 15.5bn, with an asked price of Rb 1.5bn, though MECHEL had the strongest debt burden among all of the Russian mining companies. On the other hand, its subsidiary MECHEL-Trans LLC reported that new 'investors are not interested in cargo transshipment through the Vanino Commercial Seaport'. Neither the composition of new owners, nor the amount of the resale transaction was specified.

Finally, MECHEL retained only a 1.5% of the port capital, another 73.3% of common shares (55% of the charter capital) was transferred to the new owners, 28.1% was held by En+Group, an affiliate with Basic Element business group. MECHEL representatives reported that the group acted as the leader of a consortium of investors with whom it concluded an agreement on non-debt funding if MECHEL gains control of the port. Shortly after the resale, South Korean companies were mentioned among new owners, including Pohang Iron and Steel Company (Posco) which had an agreement on cooperation with the Russian company. Later, it was reported that three Cypriote companies (Open Trade Limited, Segmino Investments Limited and Travine Trading Limited) became new owners.

It is quite obvious that this fact contradicts the announcements made by the top political leaders about focusing on higher transparency and 'deoffshorization' of the economy. However, according to the statement made by the Head of the Ministry of Economic Development and Trade at a briefing which was held after the Russia's Government meeting on February 7, 2013, this news is not considered as triggering a deep concern².

Finally, one may add that the sale transaction of the state-held interest in the Vanino Commercial Seaport was not the first one. In 2011, the results of the previous sale of the interest were cancelled after the buyer refused to discharge its payment obligations³ and was charged by arbitration court to pay Rb 75.114m

¹ The results of SG-Trans privatization were recognized by a government order, www.rupec.complexdoc.ru, November 22, 2012.

² Lanin D., MECHEL sailed through Vanino, <http://www.bfm.ru/articles>, January 19, 2013; the Ministry of Economic Development and Trade of Russia sees no 'threat' in that three offshore company have obtained control of the Vanino port, 07.02.2013, ITAR-TASS. Delovye Novosti.

³ The amount of that transaction (Rb 10.8bn) was 40% less than the sale price of 2012 (Rb 15.5bn), although the sale price was found to be a bit over the asked price (by 11.6 times against 10.3 times).

Thus, the second year of the first in the Russian history 3-year privatization program (2011–2013) was marked by numerous scandals based on a set of issues which are typical of the Russian privatization (providing rationale for a fair price of privatized assets, real motivation for participants, defining buyer selection criteria, ensuring transparency, regulators' claims). Obviously, the foregoing provide no support to build up a positive image of the new wave of privatization.

In the mid-December 2012, a collegium of the Accounts Chamber of the Russian Federation (AC) analyzed the results of the preparation and implementation of privatization plans for 2011–2014. The collegium revealed that no regulatory and methodological documents regulating the content of expenditure commitments required for privatization were in place. It was revealed during the audit that the Ministry of Economic Development and Trade failed to ensure transparency of the procedures for making decisions on the terms and conditions of privatization of certain companies¹.

However, a series of sales of an interest in the most important Russian companies is expected to take place this year.

For example, as early as the summer 2012, UBS Bank LLC and Deutsche Bank LLC were selected as sellers (organizers of the sale) of a federally held interest in the Novorossiysk commercial seaport and Sovcomflot².

In February 2013, agents were selected to sell a 7% interest in ALROSA. A branch of Goldman Sachs (Russia) LLC provided the best bid with the lowest commission charged for the organization and sale of the interest, which would be recommended as agent to the Russia's Government. The foregoing bank was recommended to include at least one Russian bank into a consortium of banks which is to be established to execute the transaction, given the objectives to develop the stock market and establish an international financial center³.

The Moscow Stock Exchange, an integral part of the process of creation of the International Financial Center in Moscow, is expected to become a floor for privatization of Alrosa OJSC and placement of additional shares of VTB Bank OJSC. According to Dergunov O., the Head of the Federal Agency for State Property Management, with reference to the Ministry of Economic Development and Trade, Alrosa together with Transneft and Russian Railways can be viewed as locomotives for raising Russian pension accruals and savings.

However, the latter of the aforementioned companies is currently subject to legal restriction on privatization. This is why the Ministry of Economic Development and Trade of Russia in conjunction with the concerned government authorities have been working on relevant amendments to the legislation in order to create conditions for the privatization of Russian Railways' shares, in particular amendments to the Federal Law dd. January 10, 2003, No. 17-FZ "On the Railway Transport in the Russian Federation". As soon as the amendments are made to the relevant legislation, a work would be performed jointly with the company and advisors on detailed structuring of the transaction which the Ministry of Economic Development and Trade of Russia in conjunction with the Federal Agency for State Property Management plan to launch in 2013⁴.

¹ Lanin D., The state sold Rb 200bn of assets, www.bfm.ru/articles, December 29, 2012.

² www.economy.gov.ru, July 19 and August 1, 2012.

³ www.rosim.ru, 21.02.2013.

⁴ www.economy.gov.ru, February 21 and 27, 2013.

State participation in the economy and structural policy

2012 was marked by more notable vs. the preceding year changes in the list of strategically important enterprises and joint stock companies. Sixteen OJSCs were included into and 6 unitary enterprises and 2 OJSCs excluded from the list.

The most significant entry in the list of strategically important enterprises was made in May 2012, a 100% interest in Systemic Operator of United Energy System and a majority shareholding in three other systemically important companies of the electric power industry (Federal Grid Company of United Energy System (FGC UES), Interregional Distribution Grid Companies Holding JSC (Holding IGDC) and Federal Hydropower Generating Company (RusHydro). A micro interest (less than 0.01%) in Rosneft¹ was included into the list of strategically important JSCs under same presidential order.

One more federal unitary enterprise and three OJSCs (FGC UES, Holding IGDC and RusHydro) saw changes in the format of their presence in the foregoing list. The FSUE, an aircraft navigation scientific and research institute, was affiliated with the State Civil Aviation Research and Development Institute, an enterprise with similar core activity, with the latter having been included into the list of strategically important enterprises. The three OJSCs experienced more serious changes, i.e. the entire state participation in a very important electric power industry was reformatted.

It is to be recalled that after the completion of a long-lasting restructuring in the electric power industry, including the wind-up of RAO UES of Russia in the summer of 2008, the state acquired a majority shareholding in two infrastructural companies, namely FGC UES (79.55% of federally held interest) and Holding IGDC (54.52% of federally held interest).

Decisions which were made in the second half of November 2012, provide for renaming the latter as Russian Grids OJSC and contributing almost the entire federally held interest in FGC UES to its charter capital as payment for the placement of additional shares by Russian Grids OJSC in response to an increase in its charter capital while the state direct participation in FGC UES was retained by holding at least one share.

The charter capital of Federal Hydropower Generating Company OJSC (RusHydro) is also expected to be increased, with a federally held interest being at least 60.5%. The state plans to contribute an interest in 4 OJSCs (2 minority and 2 blocking interest) and cash in the amount of Rb 50bn or less from the federal budget allocation for 2012.

The foregoing amounts of a federally held interest in Russian Grids JSC (54.52%), FGC UES (less than 0.01%) and RusHydro (60.5%) were registered for these companies in the list of strategically important JSCs. Such decisions contradict to a certain extent not only the supplements to the privatization program for 2011–2013 which were adopted in June, but also the last-year establishment of a lower threshold of state corporate control for RusHydro, 50% plus one share. It is to be recalled that pervious (in December 2010 and July 2011) amendments to the existing privatization program provided for contributing a federally held interest in 12 OJSCs (in addition to other assets) to the company's charter capital. It should be noted that two of them (RAO Energy Systems of East and Sakhalin Energy Company) were mentioned again in the Presidential decree on RusHydro in November, but with a new amount interest to be contributed. However, the contribution of almost the entire federally held inter-

¹ More specifically, it is not quite clear why such an asset was included into the federal property, because late in 2004 a President's order provided for contributing a 100% interest in Rosneft to the charter capital of Rosneftegaz which was included into the list of strategically important enterprises at the same time.

est in FGC UES to the charter capital of Russian Grids JSC¹ differs largely from that announced in the supplements to the existing privatization program, a fairly moderate reduction in state-held interest (up to 75% plus one share).

Unlike the bulk of similar decisions on the establishment of integrated entities, which were typical of the entire period of market reforms, the recent decisions relating to the electric power industry provide for the introduction of new tools of state control influence on partially state-owned companies.

With regard to the new Russian Grids OJSC (former Holding IGDC), the Russia's Government must support the preparation of a draft shareholder agreement between the Russian Federation and the company, which would regulate participation of Russian Grids' representatives in the management of FGC UES for the purpose of retaining state control of the company, and the development strategy of Russian Grids itself.

Furthermore, an agreement is to be concluded between federal authorities (the Ministry of Economic Development and Trade and the Ministry of Energy) and RusHydro, which would regulate flow of cash contributed to its charter capital to finance construction of certain facilities of the electric power industry at the Far East (two central heating and power plants and two hydroelectric power stations). Under the agreement the said ministries must conduct preliminary evaluation of utilization efficiency of the cash contributed for capital investments, and ensure proper cash spending for each of the construction facilities.

The need for such control tools is evident in response to a wide spread practice of recapitalization of different companies with federal budget funds. RusHydro, in which afterwards, at the end of 2012, a decision on the placement of additional shares resulted in a conflict of interests in the board of directors in which no federal government officials participated, and in 2013 the company came to the attention of law enforcement agencies as a result of severe criticism by the President of Russia, is a good example for raising a question of having additional tools for state control of budget-funded companies².

In general, the President of Russia and the federal government were focused on improving transparency of partially state-owned companies in the preceding year.

In particular, a group of 21 companies was selected as early as December 2011, whose top managers (together with their relatives) must disclose their income to the government, including all beneficiaries of all counterparties of the companies. As of the end of March 2012, the managers in 18 of the 21 companies failed to accomplish this instruction in full, some of them failed to provide such information or provided incomplete information. More than 200 cases of concealment of important information by managers were reported.

New instructions were therefore issued to ensure the provision of full data. In addition, an obligation to report to the government and employer about conflicts of interests will be entered in the list of duties of managers at partially state-owned companies as part of their labor contracts. Agreements with counterparties must disclose a full chain owners in full, otherwise such an agreement may be cancelled. Tax residents must provide a full information on foreign assets they hold and transactions therewith³.

¹ Changes in the amount of a state held interest registered with the list of strategically important enterprises were insignificant for Russian Grids JSC.

² After the events relating to RusHydro, the Accounts Chamber of the Russian Federation raised a question of the need to conduct audit in all state-owned companies and state corporations (SCs).

³ Top managers of state-owned companies failed to disclose their income, www.finmarket.ru, 20.03.2012.

Transparency of partially state-owned companies is still a problem, above all, it terms of completeness of information about ultimate beneficiaries¹.

It should be noted that the issues of improving transparency were relevant for state corporations (SC) as well, regardless of a special law adopted as early as the end of 2010. Under the law, every state corporation is to establish a board of directors or supervisory board being in charge of adopting a long-term program of activities, a labor remuneration system for its personnel, and a profit allocation procedure. State corporations are subject to mandatory audit of their annual financial statements. They also must publish their strategy and annual reports in the Internet.

Getting back to the upcoming changes in the configuration of state participation in the electric power industry, it should be noted that amendments to the applicable legislation on regulation of the industry are expected to be drafted, which, among other things, would allow the Russian Federation to control the governance of the unified national (all-Russia) electric power grid through direct or indirect interest (at least 50% plus one share) in the charter capital of the grid. If this provision is adopted, it would remind to a certain extent the law on the specifics of disposal of shares in RAO UES of Russia of 1998, in a state interest was 51%, though at that time the all-Russia energomonopoly also included power generating assets which are currently not included into Russian Grids JSC. With regard to a possibility for the state to hold indirectly a 100% interest, it should be noted that the currently applicable law on gas supply of 1999 established a threshold in the charter capital of the owner of the Unified Gas-Supply System, which must be at least 50% plus one share for a total state-held interest and the assets owned by joint stock companies in which the Russian Federation holds more than 50% interest (a regulation on exclusive direct state-held interest of at least 35% was in force until the end of 2005).

Besides the electric power industry, the structural policy plan has decisions relating to the geodesy and agricultural sectors.

The existing Moscow Aero-geodesic Predpriyatiy FSUE is to be restructured into Roscartography OJSC, with subsequent contribution to its charter capital a federally held interest (100% less one share) in OJSCs which are to be established through corporatization of 32 FSUEs. A controlling interest in Roscartography (51%) is already in the list of strategically important enterprises. About 230 real estate units are scheduled for contribution to the charter capital of the existing Rosspirtprom OJSC, and 83 real estate units² to the charter capital of Russian Hippodromes OJSC which is to be established.

Regarding the military defense industry, the following entities are to be expanded. Tactical Missiles Corporation JSC (through contribution of stakes in 12 JSCs, including 6 minority stakes, 3 blocking stakes, 3 controlling stakes, and a 100% stake less one share), Concern Granit-Electron OJSC (contribution of a 100% interest less one share in a OJSC which is to be established through corporatization of a FSUE), Concern Morskoye Podvodnoye Oruzhiye – Gidropribor OJSC (through contribution of stakes in 4 JSCs, including 2 controlling and 2 blocking stakes), "Shipbuilding & Shiprepair Technology Center" Joint stock corporation (through contribution of a controlling stake in a OJSC), Concern Oceanpribor (through contribution of stakes in 8 JSCs, including a 100% interest less one share, one controlling stake, the rest are blocking stakes), UralVagonZavod Scientific & Research Corporation (through

¹ Putin: State-owned companies still remain to be transparent, www.bfm.ru/news, 13 February 2013.

² This explains a sharp increase in the number of units subject to privatization which fall under the 'Other units' category in the privatization program for 2011-2013.

contribution of stakes in 7 JSCs, including a 100% interest less one share, 2 blocking stakes, the rest are minority stakes). In addition, it is worth noting the establishment of Federal State Unitary Enterprise "State Research and Production Space Rocket Center "TsSKB-Progress" on the basis of the similarly-named FSUE, by contributing a 100% interest (less one share) in 2 other OJSCs to its charter capital.

State-owned assets in the defense industry have been consolidating in a different manner.

For example, in the summer of 2012, the Federal Agency for State Property Management represented by CAMELOT LLC, a specialized entity, held a mortgage asset auction. The auction was opened by the composition of bidders and the form of bidding. A stake in Baltiysky Zavod OJSC was tendered at an asked price of about Rb 222m. Zapadny Shipbuilding Center OJSC (a subsidiary of the United Shipbuilding Corporation) offered the highest bid of Rb 224,3m¹ and won the auction.

The Russian Federation regained its control of Klimovsky Specialized Ammunition Plant (JSC "KSPZ") (Moscow Region) by having been awarded a stake in the plant, after a legal claim of the Federal Agency for State Property Management was satisfied in court².

Some of the state corporations continued growing.

For example, the Russian Federation is to contribute to Rostekhnologi a 100% interest in MMPP "SALUT" to be established on the basis of the similar-named federal state unitary enterprise, by contributing to its charter capital a 100% interest in other OJSC, a scientific and research institute, as well as federally held minority stake in another 2 OJSCs. All these assets are subsequently to be contributed to the charter capital OBORONPROM OJSC United Industrial Corporation. Another 6 FSUEs are subject to corporatization and contribution of ROSATOM assets to their charter capital.

Vnesheconombank SC was included into a future scheme of indirect state corporate control of Rostelecom OJSC which is expected to be reorganized by taking over Investitsionnaya Kompaniya Svyazy OJSC (better known as Svyazinvest) and excluding the former from the list of strategically important enterprises, provided that the Russian Federation jointly with Vnesheconombank have a control of more than 50% of common shares in Rostelecom.

Reorganization of the state segment in the telecommunication sector is currently at the stage of floating additional shares of Svyazinvest, as part of which the state is going to transfer core assets to the holding (including stakes in Central Telegraph OJSC, Bashinformsvyaz and other companies). To retain its stake in Svyazinvest (25% plus one share, the rest is held by the state), Rostelecom must contribute cash to be able to take part in the floating of additional shares. In its turn, Svyazinvest must use the cash to reacquire 6.55% common shares of Rostelecom from its subsidiary Mobitel LLC. Svyazinvest must obtain an even smaller stake (approx. 1.91% common shares) in Rostelecom in exchange for a 50% stake in Skylink CJSC.

However, an interest held by Svyazinvest as the principal shareholder of Rostelecom is still smaller, even after an increase, than a controlling interest (41.84% of the capital and 45.29% common shares). The state, represented by the Federal Agency for State Property Manage-

¹ However, a similar auction of encumbered stakes in Severnaya Verf OJSC was cancelled due to the lack of bids. www.rosim.ru, 06.07.2012, 08.08.2012.

² Previously, in executing the RF President's and Russia's Government's instructions on the contribution of a state-held interest of 26% in Klimovsky Specialized Ammunition Plant JSC to Rostekhnologi, in 2009 the Federal Agency for State Property Management found out that a stake of 25% in the plant was withdrawn from the federal ownership by having been debited from the federal account in compliance with a court order.

ment and Vnesheconombank, owns 7.43% of common shares (6.86% of the capital) and 2.45% of voting shares Rostelecom (2.26% of the capital) respectively¹.

The foregoing interest was transferred to the Federal Agency for State Property Management early in 2012 by another state corporation, the State Agency for Deposit Insurance (DEA), which acquired it in the summer of 2009 from KIT Finance bank as part of the financial rehabilitation of the latter, and then more than once asked the government to get rid of the interest.

It was at that time when Vnesheconombank acquired a 10% interest in and became a shareholder of Rostelecom. Later, however, Vnesheconombank's interest shrank as Rostelecom was reorganized by taking over eight companies owned by Svyazinvest in the spring of 2011², and conviction of shares. Svyazinvest intended to acquire the interest under the agreement concluded with Vnesheconombank in the summer of 2010. However, the agreement was terminated last year when the price of Rostelecom shares dropped below the 2009 value specified in the agreement, i.e. against the price which Vnesheconombank paid for the shares in 2009.

The floating additional shares of Rostelecom should be followed by taking over Svyazinvest which is to cease to exist. The state jointly with Vnesheconombank are going to remain the controlling shareholders of the united telecommunication company. However, the current process of Rostelecom reorganization by taking over Svyazinvest is slower than the timeframe (by March 2013) specified by the government³.

Vnesheconombank plays an important role as creditor of enterprises in the real sector of economy.

For example, in 2012 Vnesheconombank considered a question of replacing the management team at Machinery & Industrial Group N.V., a large machine building business group involved in the production of agricultural, road-building machinery, train cars, and special-purpose products. It is to be recalled that in 2010 the concern obtained a loan of Rb 15bn from Vnesheconombank in exchange for a 100% interest in the parent company, provided that the existing management should be retained, and there should be a buy-back option in seven years. However, Vnesheconombank considered not only an option of replacing the management team at Machinery & Industrial Group N.V., but also selling the assets in which Ural-VagonZavod, Russian Machines corporation, and IST Group were interested. The role of Vnesheconombank in assessing the prospects of Machinery & Industrial Group N.V. is getting more important, because this year the concern is to redeem a syndicated loan of a group of banks, including Sberbank⁴.

A decision to transfer a series of federally owned air transport assets to the regional level is an example of another recently forgotten line of state ownership policy.

For example, the Yamal-Nenets Autonomous District became the holder of a 100% interest in Novy Urengoy United Air Group OJSC and Salekhard Airport. In the period till 2015 the

¹ In addition, Rostelecom's subsidiary Mobitel and Gazprombank (5.24% and 9.66% respectively) remain Rostelecom shareholders.

² These companies include seven interregional communication companies, namely Volgatelecom, Dalsvyaz, Severo-Zapadny Telecom, Sibirtelecom, Uralsvyazinform, Central Telecommunications Company (Centrtelecom), Southern Telecommunications Company (STC), plus Dagsvyazinform.

³ Chernoiivanova A. Svyazinvest fails to comply with the presidential timeframe, *www.gazeta.ru*, 12.12.2012.

⁴ Popov E. Vnesheconombank restarts Machinery & Industrial Group N.V., *Kommersant*, No. 129 (4914), 17.07.2012; Machinery & Industrial Group N.V. may sell Promtractor Vagon, *www.iguru.ru*, 25.02.2013.

Yamal-Nenets authorities intend to generate investments as part of public private partnership for comprehensive reconstruction, construction and upgrade of the air transport infrastructure of the airports at Novy Urengoy and Salekhard, at least Rb 4880.3m and at least Rb 2471.3m, respectively. The Rostov Region became the holder of a federally held interest (more than 38%) in Rostov on Don Airport OJSC¹. The regional government authorities intend to generate at least Rb 800m of investments as part of public private partnership for reconstruction of the airport airfield infrastructure facilities and at least Rb 15bn for construction of a new airport facility (Uyzhny) (exclusive of the airfield and facilities of the unified air-traffic management system) in Rostov on Don.

Besides the aforementioned transaction which was initiated by Rosneft, there were more examples of activity of partially state-owned companies in the market of corporate control that are worth noting. For example, Sberbank paid \$60m to acquire a 75% interest in the charter capital of Yandex Money. However, the amount seems to be miserable as compared to TNK-BP².

The regulations of the Russia's Government Decree dd. November 1, 2012, No. 1127 are intended to play an important role for regulation of public sector companies' activity in the market of corporate control.

Pursuant to the document federal executive bodies must till October 1, 2013 make amendments to the charters of open joint stock companies in which the state holds more than a 50% interest (save for credit institutions), which entitle the board of directors (supervisory board) of such OJSCs to determine the position of such OJSCs or their representatives when the management body of their subsidiaries or affiliated business entities considers the purchase of share holdings (participating interests in charter capital) in other business entities, also during their foundation, provided that the price of such transaction is at least 15% of the book value of the assets of a subsidiary or affiliated company as specified in the accounting records as of the latest accounting date. A similar regulation was also introduced with regard to business entities in which federal state unitary enterprises hold more than 50% of shares (participating interests in charter capital), where decisions to acquire an interest (participating interests in charter capital) in other business entities, also during their foundation, are subject to the approval of the board of directors (supervisory board) of such business entities.

Respective amendments were made to the Russia's Government Decree approved on December 3, 2004, No. 738, the 'Provision on the Management of Federally Held Interest in Joint Stock Companies and the Exercise of the Special Right (Golden Share) of the Russian Federation to Participate in the Governance of Joint Stock Companies', and the Russia's Government Decree dd. December 3, 2004, No. 739 "On the Authority of Federal Executive Bodies to Exercise the Ownership Right to the Assets of a Federal State Unitary Enterprise".

Furthermore, it was established that federal executive bodies' proposals as part of the drafting of instructions for state representatives in the board of directors (supervisory boards) of OJSCs with a state-held interest more than 50%, on the subject of acquisition by their subsidiaries or affiliated business entities of an interest (participating interests in the charter capital) in other business entities, also during their foundation, in the case when the Articles of a com-

¹ Furthermore, the region became the owner of the units and facilities at the Rostov on Don airfield (exclusive of the airfield and facilities of the unified air-traffic management system). The units and facilities of such airports as Bolshoye Savino (the Perm Territory), Novy Urengoy and Salekhard (Yamal-Nenets Autonomous District) were transferred to the region in the same manner.

² Kozlova N., Sberbank has found the "Money". – B: Profil, 01/2013, pp. 38-40.

pany reads that it shall be within the scope of the board of directors (supervisory board) of a joint-stock company to determine the position of the company or its representatives (when the management of subsidiaries or affiliated business entities considers the agenda of a general meeting of shareholders and a meeting of the boards of directors), must be presented with an explanatory note describing the reasons, as well as the materials required for decision-making in accordance with the established procedure.

Budget effect of the state property policy in the period between 2000 and 2012

Budget revenues relating to state-own assets continued to grow substantially in 2012, like in the preceding year. However, not all sources saw growth vs. 2010–2011.

It should be reminded that all federal budget revenues from state-owned property units can be divided into two groups in terms of nature and sources thereof. One group includes revenues from the use of state-owned property (renewable sources). The second group comprises revenues of single origin, which are non-renewable; because once they are sold the state assigns the title thereto to other legal entities and individuals, incl. as part of the privatization process (non-renewable sources).

Presented below (*Table 5* and *6*) are the data on the revenues (save for the data on the preceding year) specified in the laws on the implementation of the federal budget for the period of 2000 – 2012, with regard to the use of state-owned property units and sale thereof only in the form of tangible assets ¹.

Table 5

¹ No consideration was given to federal budget revenues from mineral tax payments (including aquatic biological resources, revenues from the use of forest resources and mineral resources), compensation for losses in agricultural productivity relating to forfeiture of agricultural lands as a result of financial operations (revenues from allocation of budget funds (revenues from balances of budget funds and allocation thereof, from 2006 also revenues from management of funds allocated in the Stabilization Fund of the Russian Federation, revenues from allocation of money accumulated during state-held shares auctions), interest from domestic budget loans extended with federal budget funds, interest on sovereign loans (cash inflow from foreign governments and legal entities thereof as repayments for loans extended by the Russian Federation, revenues from enterprises and organizations as payments of interest and guarantees on loans issued to the Russian Federation by foreign governments and international financial organizations)), from the provision of paid services or compensation for government expenses, transfer of profit to the Central Bank of Russia, some types of payments from public and municipal enterprises and organizations (patent fees and registration dues payable for official registration of software, data banks and integrated circuit layouts and other revenues which prior to including 2004 formed an integral part of payments due by government organizations (apart from revenues from the Vietsovpetro Joint Venture since 2001 and allocation of a part of the profit of FSUEs since 2002)), revenues from exercise of product sharing agreements (PSA), revenues from disposal and sale of confiscated and other property converted into state income (including properties whose title was transferred to the state by way of inheritance or gift, or contributions), revenues from lotteries, other revenues from the use of state-owned properties and title (revenues from exercise of rights to intellectual activity (R&D and technological works) of military, special and double purposes, revenues from exercise of rights to the state-owned results of scientific and research activity, revenues from operation and use of motor road assets, motor road tolls payable for vehicles registered overseas, and other revenues from the use of state-owned property assets), as well as from permitted types of activity of organizations, federal budget revenues from sale of precious metals and stones as part of the national reserve of the same. Also see the notes to Tables 5 and 6 on the relevant periods.

**Federal budget revenues from the use of state-owned property units
(renewable sources) in the period between 2000 and 2012, m Rb**

Year	Total	Dividends on shares (2000–2012) and revenues from other forms of capital participation (2005–2012)	Rental payments for state-owned land	Revenues from leasing of state-owned property units	Revenues from transfers of a part of after-tax profit and other mandatory payments payable by FSUEs	Vietsovinvest Joint Venture Revenues
2000	23244.5	5676.5	–	5880.7	–	11687.3 ^a
2001	29241.9	6478.0	3916.7 ^b	5015.7 ^c	209.6 ^d	13621.9
2002	36362.4	10402.3	3588.1	8073.2	910.0	13388.8
2003	41261.1	12395.8	10276.8 ^e	2387.6		16200.9
2004	50249.9	17228.2	908.1 ^f	12374.5 ^g	2539.6	17199.5
2005	56103.2	19291.9	1769.2 ^h	14521.2 ⁱ	2445.9	18075.0
2006	69173.4	25181.8	3508.0 ^h	16809.9 ⁱ	2556.0	21117.7
2007	80331.85	43542.7	4841.4 ^h	18195.2 ⁱ	3231.7	10520.85
2008	76266.7	53155.9	6042.8 ^h	14587.7 ⁱ	2480.3	–
2009	31849.6	10114.2	6470.5 ^h	13507.6 ⁱ	1757.3	–
2010	69728.8	45163.8	7451.7 ^h	12349.2 ⁱ	4764.1	–
2011	104304.0	79441.0	8210.5 ^h	11241.25 ⁱ	4637.85	773.4
2012	228964.5	212571.5	7660.7 ^k	3730.3 ^l	5002.0	–

^a – according to the Federal Agency for State Property Management of Russia, the Law “On the Implementation of the Federal Budget for 2000” contained no separate line for these; the amount of payments from state-owned enterprises (Rb 9887,1m) was specified (no specific elements were shown);

^b – amount of rental for (i) agricultural lands and (ii) lands of cities and settlements;

^c – total revenues from leasing of the property units secured to (i) research institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public museums, public institutions of arts and humanities, (iiiii) archive institutions, (iiiii) Ministry of Defense of Russia, (iiiii) organizations under the Traffic Ministry of Russia, (iiiii) organizations providing services to public academies of science and (iiiii) other revenues from leasing of state-owned property units;

^d – according to the Federal Agency for State Property Management of Russia, the Law “On the Implementation of the Federal Budget for 2001” contained no separate line for these; the value coincided with the value of other revenues from payments due by public and municipal organizations;

^e – total amount of revenues from lease of state-owned property units (without specifying land rental);

^f – amount of rental for (i) lands of cities and settlements and (ii) state-owned land after the delimitation of land ownership;

^g – total revenues from leasing of the property units secured to (i) research institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiii) federal postal agencies under the Federal Communications Agency, (iiiii) organizations providing services to public academies of science and (iiiii) other revenues from leasing of federally owned property units;

^h – rental after the delimitation of land ownership and proceeds from sale of the right to conclude contacts on leasing of state-owned land (net of land plots owned by autonomous (2008–2011) and state-funded (2011) institutions);

ⁱ – revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby and on the basis of economic management by FSUEs: transferred for the purpose of state-status operating management (i) scientific institutions, (ii) institutions providing scientific services under the Russian Academy of Science and industry-specific academies of science, (iii) educational institutions, (iiii) medical institutions, (iiiii) federal postal agencies under the Federal Communications Agency, (iiiii) public institutions of arts and humanities, (iiiii) public archive institutions and (iiiii) other revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby and on the basis of economic management by FSUEs¹ (for 2006–2009 net of overseas revenues from

¹ In 2008–2009, FSUEs, as a source of revenues from leasing of property assets being under economic management thereby, were not mentioned, and leasing of property assets being under operating management by federal government authorities and the institutions established thereby excludes property assets owned by federal autonomous institutions.

permitted types of activity and the use of federal property units located overseas, which were not shown in the previous years¹;

^j – revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby (save for state-funded and autonomous institutions): transferred for the purpose of state-status operating management (i) scientific institutions, (ii) institutions providing scientific services under the Russian Academy of Science and industry-specific academies of science, (iii) educational institutions, (iiii) medical institutions, (iiiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiii) on the basis of economic management by the Ministry of Defense of Russia and its subordinated bodies (2010), (iiiii) federally owned with functions of disposing thereof being assigned to the Department for Presidential Affairs of the Russian Federation (2010) and (iiiii) other revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby (net of overseas revenues from permitted types of activity and the use of federal property units located overseas).

^k – rental after the delimitation of land ownership and proceeds from sale of the right to conclude contacts on leasing of state-owned land (net of land plots owned by autonomous and state-funded institutions), as well as (i) rental for land plots located right-of-way federal motor roads for general use, which are owned by the federal government, and (ii) payment from the implementation of agreements on easements concerning land plots located right-of-way federal motor roads for general use for the purpose of construction (reconstruction), over-haul and operation of road service units, laying, reallocation, rebuilding, and operation of engineering networks, installation and operation of advertisement constructions;

^l – revenues from leasing of property units which are operatively managed by federal government bodies and the institutions established thereby (save for state-funded and autonomous institutions): transferred for the purpose of state-status operating management (i) scientific institutions, (ii) educational institutions, (iii) medical institutions, (iiii) public institutions of arts and humanities, (iiiii) public archive institutions, (iiiii) other revenues from leasing of property units which are operatively managed by federal state-run enterprises, (iiiii) federal government bodies, Bank of Russia, and agencies for public extrabudgetary funds management (net of revenues from the use of federal property located outside the Russian Federation, overseas revenues).

Source: The laws on the implementation of the federal budget for the period of 2000–2011, the Report on the Implementation of the Federal Budget as of January 1, 2013, [www.roskazna.ru](http://www roskazna.ru); the authors' estimates.

Proceeding to analysis of preliminary results of the budget effect of the state property policy in 2012 with regard to renewable sources, first of all, a drastic growth in dividends by 2.7 times against 2011 is worth noting, it was the biggest growth throughout the entire 2000s, except for a spike (by 4.5 times) in 2010 which was caused mostly by the low base effect in the preceding pre-crisis year (2009). Furthermore, in 2012, a growth of 7.9% in transfer of a portion of profits of unitary enterprises was the highest throughout the entire 2000s, whereas budget revenues from leasing of federal property units reduced by about 3 times and revenues from land lease reduced by 6.7%.

Revenues from property lease (Rb 3.73bn) were minimal against the record-breaking since 2000 values of dividends (Rb 212.6bn)² and transfer of a portion of profits of unitary enterprises (Rb 5bn), though land rent (Rb 7.67bn) was lower against the preceding year (2011)³ only.

¹ According to the Federal Agency for State Property Management, revenues from the use of federal property assets located overseas (net of revenues of the Russian participant in Vietsovpetro Joint Venture), totaled Rb 315m in 1999 and Rb 440m in 2000. Thereupon, Overseas Management Enterprise, a FSUE, began to play the key role in organizing commercial use of federally owned immovable property assets located overseas.

² Initially, government authorities were surprised by this value, because they expected something around Rb 150bn.

³ This value of land rent also includes the following items which were recognized in the budgetary reporting for the first time: (1) rental for land plots located right-of-way general-purpose federal motor roads which are owned by the federal government, and (2) payment from the implementation of agreements on easements concerning land plots located right-of-way general-purpose federal motor roads for the purpose of construction (reconstruction).

As a result, dividends accounted for the overwhelming part of federal budget revenues from renewable sources (about 93% against 76% in the preceding year), whereas other sources revenues accounted for rather token amount: land lease – 3.3%, profit transferred by FSUEs – 2.2%, leasing of federal property units – 1.6%.

Proceeding to the analysis of the federal budget revenues from privatization and sale of state-owned property (*Table 6*), it should be noted that since 1999 revenues from sale of a major part of such assets (shares, and also land plots in 2003–2007¹) became classified as sources of financing of the federal budget deficit.

Table 6

**Federal budget revenues from privatization and sale of property units
(non-renewable sources) in the period between 2000 and 2012, m Rb**

Year	Total	Sale of federally held shares (2000–2012) and other forms of interest holding (2005–2012) ^a	Sale of land plots	Sale of various types of property
2000	27167.8	26983.5	–	184.3 ^b
2001	10307.9	9583.9	119.6 ^c	217.5+ 386.5+0.4 (HMA) ^d
2002	10448.9	8255.9 ^e	1967.0 ^f	226.0 ^g
2003	94077.6	89758.6	3992.3 ^h	316.2+10.5 ⁱ
2004	70548.1	65726.9	3259.3 ^j	197.3+1364.6+0.04 (HMA) ^k
2005	41254.2	34987.6	5285.7 ^l	980.9 ^m
2006	24726.4	17567.9	5874.2 ⁿ	1284.3 ^o
2007	25429.4	19274.3	959.6 ^p	5195.5 ^p
2008	12395.0	6665.2+29.6	1202.0 ^c	4498.2+0.025 (HMA) ^r
2009	4544.1	1952.9	1152.5 ^q	1438.7 ^r
2010	18677.6	14914.4	1376.2 ^q	2387.0+0.039 (HMA) ^r
2011	136660.1	126207.5	2425.2 ^q	8027.4 ^r
2012	80911.3	43862.9	16443.8 ^q	20604.3+0.338 (HMA) ^r

^a – refer to sources of internal financing of the federal budget deficit, total amount of Rb 29,6m in 2008 (according to the data provided in the Report on the implementation of the federal budget as of January 1, 2009) was classified as federal budget revenues but not specified in the Federal Law “On the Implementation of the Federal Budget in 2008”;

^b – revenues from privatization of state-owned organizations classified as sources of internal financing of the federal budget deficit;

^c – revenues from sale land plots and leasehold rights to state-owned land plots (specifying the land plots on which privatized enterprises are located) classified as federal budget revenues;

^d – amount of proceeds from (1) sale of federally owned property classified as sources of internal financing of the federal budget deficit, (2) revenues (i) from sale of living quarters, (ii) from sale of public productive and nonproductive assets, means of transport, other equipment and other tangible assets, as well as (3) revenues from sale of intangible assets (IAs) classified as federal budget revenues;

^e – including Rb 6m from sale of shares held by constituent territories of the Russian Federation;

^f – revenues from sale of land and intangible assets, without specifying the amount of proceeds therefrom, classified as federal budget revenues;

^g – proceeds from sale of state-owned property (including Rb 1,5m from sale of the property owned by constituent territories of the Russian Federation) classified as sources of internal financing of the federal budget deficit;

tion), over-haul and operation of road service units, laying, reallocation, rebuilding, and operation of engineering networks, installation and operation of advertisement constructions.

Recognizing these items as land rent seems to be reasonable, because their source is land plots, whereas the previously recognized revenues from the use of motor road facilities, road toll payable by motor vehicles registered on the territory of other countries are classified as other revenues from the use of property and rights owned by the state.

However, as opposed to 2011, the structure of revenues from renewable sources of the federal budget has no revenues generated by Vietsovpetro in terms of calculation of revenues of prior years.

¹ In 2003–2004, given the sale of leasehold right.

^h – includes proceeds (1) from sale of land plots, which include immovable property units owned by the federal government prior to transfer, to be allocated to the federal budget, (2) from sale of other land plots, as well as from sale of the right to conclude contracts on leasehold thereof, (3) from sale of land plots prior to the delimitation of land ownership, as well as from sale of the right to conclude contracts on leasehold thereof, to be allocated to the federal budget, classified as sources of internal financing of the federal budget deficit;

ⁱ – the amount (1) of proceeds from federally owned property classified as sources of internal financing of the federal budget deficit, and (2) revenues from sale of intangible assets classified as federal budget revenues;

^j – includes proceeds (1) from sale of land plots prior to the delimitation of state ownership of land, which include immovable property units owned by the federal government prior to transfer, to be allocated to the federal budget, (2) from sale of other land plots, as well as from sale of the right to conclude contracts on leasehold thereof, (3) from sale of land plots prior to the delimitation of land ownership, as well as from sale of the right to conclude contracts on leasehold thereof, to be allocated to the federal budget, classified as sources of internal financing of the federal budget deficit;

^k – the amount (1) of proceeds from federally owned property classified as sources of internal financing of the federal budget deficit, (2) revenues (i) from sale of living quarters, (ii) from sale of equipment, means of transport and other tangible assets, to be allocated to the federal budget, (iii) from sale of ship utilization products, (iiii) from sale of the property owned by SUEs, institutions and military equipment, (iiiii) from disposal of military products, equipment and ammunition, (3) revenues from sale of intangible assets (IAs) classified as federal budget revenues;

^l – includes proceeds (1) from sale of land plots prior to the delimitation of state ownership of land, which include immovable property units owned by the federal government prior to transfer, (2) from sale of land plots prior to the delimitation of land ownership, to be allocated to the federal budget, (3) from sale of other land plots which were owned by the state prior to the delimitation of state ownership of land and are not to be used for housing construction (the latter update is referred to 2006 only) and are classified as sources of financing of the federal budget deficit;

^m – revenues from sale of tangible and intangible assets (net of federal budget revenues from disposal and sale of confiscated and other property converted into state income), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of military property, (iiiii) from disposal of military products, equipment and ammunition, (iiiii) from sale of other federally owned property, (iiiii) from sale of intangible assets, classified as federal budget revenues;

ⁿ – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into state income), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of military property, (iiiii) from disposal of military products, equipment and ammunition, (iiiii) revenues from sale of other federally owned property classified as federal budget revenues;

^o – proceeds from sale of land plots prior to the delimitation of land ownership, which were owned by the federal government and are classified as sources of financing of the federal budget deficit;

^p – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into public revenues, proceeds from sale of sequestered lumber), include revenues (i) from sale of living quarters, (ii) from sale of the property of FSUEs, (iii) from sale of the property operatively managed by federal institutions, (iiii) from sale of released movable and immovable military and other property available at federal government executive bodies in which military and equivalent to military services are envisaged, (iiiii) from sale of military products available in federal government executive bodies within the framework of military and technical cooperation, (iiiii) revenues from sale of other federally owned property classified as federal budget revenues;

^q – revenues from sale of land plots owned by the state (save for land plots of federal autonomous and state-funded (2011) institutions), classified as federal budget revenues;

^r – revenues from sale of tangible and intangible assets (net of revenues which represent a public share in profit products in executing product sharing contracts (PSCs) and federal budget revenues from disposal and sale of vacant, confiscated and other property converted into public revenues, proceeds from sale of sequestered lumber, revenues from sale of special raw materials and fertile materials), include revenues (i) from sale of living quarters, (ii) from sale of the property operatively managed by federal institutions (save for state-funded and autono-

mous institutions (2011), (iii) from sale of released movable and immovable military and other property available at federal government executive bodies in which military and equivalent to military services are envisaged, (iiii) from disposal of military products, equipment and ammunition, (iiiii) from sale of military products available at federal government executive bodies within the framework of military and technical cooperation (2008 and 2010–2011), (iiiii) from disposal of military products, equipment as part of the federal special program on Industrial Utilization of Arms and Military Equipment for the period of 2005–2010, (iiiii) revenues from sale of other federally owned property, as well as revenues from sale of intangible assets (IAs) classified as federal budget revenues

Source: The laws on the implementation of the federal budget for the period of 2000–2011, the Report on the Implementation of the Federal Budget as of January 1, 2013, www.roskazna.ru; the authors' estimates.

In 2012, property-related federal budget revenues from non-renewable sources contracted by half to correspond approx. the value of 2004. First of all, revenues from sale of shares reduced drastically (2.9 times) and (Rb 43.9bn) were below, in absolute magnitude, not only the highest value of the preceding year (2011), but also the values of 2003–2004. According to the Federal Treasury's data on the implementation of the federal budget, budget allocations concerning this item were fulfilled by approx. 3/4.

Furthermore, revenues from sale of land plots increased a lot (6.8 times) to triple, in absolute magnitude, (more than Rb 16.4bn) the previous record values of 2005–2006. Revenues from sale of different types of property increased by 2.6 times (up to Rb 20.6bn) to overtop the previous maximum value of the preceding year (2011).

As a result, revenues from sale of shares accounted for more than 54% of total revenues from non-renewable sources in 2012 against more than 92% in 2011, whereas revenues from sale of land plots began to play a much more important role. The former accounted for more than 20% (against 1.8% in 2011), the latter – 25% (against 5.9% in 2011).

Total volume of the federal budget revenues from privatization (sale) and use of state-owned property units (*Table 7*) increased by 1.3 times in 2012 against 2011. Their value (about Rb 310bn) hit the absolute maximum since the beginning of the 2000s.

A share of non-renewable sources in total revenues from privatization (sale) and use of state-owned property units decreased by 2.2 times (to 26.1%) in 2011 against the preceding year, being similar to the value of 2006 and higher than in 2007–2010.

A share of revenues from the use of state-owned property units increased from 43.3% in 2011 to almost 74% in 2012. This value is maximum in absolute magnitude, exceeding by 2.2 times the total value in 2011, whereas revenues from privatization (sale) of property units decreased by approx. 40% against 2011, having reached its maximum throughout the entire 2000s.

However, according to the data provided by the Head of the Ministry of Economic Development and Trade in his report at the Russia's Government meeting on February 7, 2013, total revenues from property management amounted to Rb 433.6bn in 2012, of which revenues from privatization amounted to Rb 201.5bn.

One may assume that the latter represents the amount of revenues from sale of shares (Rb 43.9bn) classified as budget deficit sources of financing, and the revenues the Central Bank of Russia generated from sale of Sberbank shares, whose amount was calculated as the difference between the amount of revenues from the sale of the said shares (Rb 159.3bn) and their book value, net of sale costs of the said shares, were to be transferred to the federal budget by reducing accordingly a part of the revenues generated by the Central Bank of Rus-

sia at 2012 year end¹. The difference together with the data shown in *Tables 5, 6 and 7* also may result from accounting budget revenues from a bigger spectrum of sources with regard to the use of state-owned property.

Table 7

**Structure of federal budget property-related revenues from various sources
in the period between 2000 and 2012**

Year	Total revenues from privatization (sale) and use of state-owned property units		Revenues from privatization (non-renewable sources)		Revenues from the use of state-owned property units (renewable sources)	
	millions of rubles	% of total	millions of rubles	% of total	millions of rubles	% of total
2000	50412.3	100.0	27167.8	53.9	23244.5	46.1
2001	39549.8	100.0	10307.9	26.1	29241.9	73.9
2002	46811.3	100.0	10448.9	22.3	36362.4	77.7
2003	135338.7	100.0	94077.6	69.5	41261.1	30.5
2004	120798.0	100.0	70548.1	58.4	50249.9	41.6
2005	97357.4	100.0	41254.2	42.4	56103.2	57.6
2006	93899.8	100.0	24726.4	26.3	69173.4	73.7
2007	105761.25	100.0	25429.4	24.0	80331.85	76.0
2008	88661.7	100.0	12395.0	14.0	76266.7	86.0
2009	36393.7	100.0	4544.1	12.5	31849.6	87.5
2010	88406.4	100.0	18677.6	21.1	69728.8	78.9
2011	240964.1	100.0	136660.1	56.7	104304.0	43.3
2012	309875.8/ 469175.8*	100.0	80911.3/ 240211.3*	26.1/ 51.2*	228964.5	73.9/ 48.8*

* – inclusive of the revenues the Central Bank of Russia generated from sale of an interest in Sberbank (Rb 159.3bn), which together with a total share of non-renewable sources is probably slightly overestimated, because it was transferred to the budget net of books value and total sale costs. Therefore, a share of renewable sources is probably underestimated.

Source: The laws on the implementation of the federal budget for the period of 2000–2011; the Report on the Implementation of the Federal Budget as of January 1, 2013, www.roskazna.ru; the authors' estimates.

However, given the revenues generated from the sale of an interest in Sberbank through the Central Bank of Russia, a share of non-renewable sources in total revenues from privatization (sale) and the use of state-owned property units, which accounted for about 51% in 2012, is smaller than that in 2011 (56.7%).

A New State-Owned Property Management Program

A national program of the Russian Federation adopted by the Russia's Government Order of February 16, 2013, No. 191-r., "Federal Property Management", was the most important event having an impact on the entire spectrum of ownership relations in the country.

According to the Head of the Ministry of Economic Development and Trade who made a presentation of the draft program at the Russia's Government meeting on February 7, 2013, this document offers a new federal property management concept as a replacement for the existing Concept of State-Owned Property Management and Privatization of 1999, the system of actions and measures, including respective key performance indicators and budget of the pro-

¹ In this respect it should be reminded that a part of the revenues generated by the Central Bank of Russia, which is to be transferred to the federal budget, is registered on the revenue side of the budget, in the property management item. According to the Federal Treasury data on the implementation of the Federal Budget as of January 1, 2013, revenues from the transfer of a part of the revenues generated by the Central Bank of Russia amounted to about Rb 166bn against Rb 153.1bn in 2011.

gram, as well as sub-programs on state-owned tangible assets reserve management, provided for by the Concept of 1999.

The publication procedure for this document is worth noting from the technical legal point of view. Unlike the Concept of 1999 whose text was published in full in the Consultant Plus system, the Russia's Government Order dd. February 16, 2013, No. 191-r instructed the Ministry of Economic Development and Trade to post only those parts of the said program which contain neither information constituting State secrets, nor classified inside information on its official website and the Internet portal for public programs.

The version of the new national program posted by the Ministry of Economic Development and Trade has some references to the Concept of 1999, but provides no information about the new concept of federal property management¹.

Two subprograms are to be implemented to accomplish the set goals and tasks as part of the national program:

1. Enhance the effectiveness of federal property management and privatization;
2. Ensure the management of the state-owned tangible assets reserve.

The latter is more related to information constituting State secrets and classified inside information, thereby classifying the information substantiating financial resource volumes concerning the management of the state-owned tangible assets reserve.

The national policy concerning the management of federal property, which was developed on the basis of this national program, is intended to accomplish the following objectives:

- ensure an unambiguous definition and formation of a complete composition of federal property required for federal government bodies and subordinate federal agencies to perform their public functions;
- create an efficient federal property management system to ensure, in accordance with the functions of federal government bodies, the development of tools to assess the demand and need for managing certain property units, as well as procedures for including and excluding them from the list of units subject to management;
- provide an effective assignment (disposal) procedure for marketable federal property for commercialization;
- create an efficient accounting and monitoring system for federal property within the unified federal property management system.

With regard to the content of the new national federal property management program, it proceeds, like almost all of the previous property-related government programs did, from the need to reduce as much as possible state participation in the economy.

However, unlike most of the previous documents, the program provides the following reasons for that. The state is overloaded with surplus assets; corruption; budget overrun, with budget funds being spent to maintain useless property units, rather than the time-worn thesis, which was delicately put aside, about ineffectiveness of the state as economic agent.

That being stated, two principal lines in the enhancement of federal property management were highlighted: asset assignment (disposal) management (improve the effectiveness of the state as seller of assets) and the management of property units retained in state ownership. A great advantage of the national program is that it provides for a stand-alone line of management of potential risks that may occur during the implementation of the national program, as well as upgrade to a new technological level in terms of accounting and monitoring.

¹ In any case, the Concept of 1999 has not ceased to be in force to date.

Let us focus on the key indicators of the new national program, rather than get into details.

First of all, a target function will be assigned to every federal property unit, and disposal of assets will take place if such function is not determined.

It must be completed with regard to all FSUEs by 2018 at the latest (given the allocation of extra funds in 2015), with regard to state-owned business entities by 2018 at the latest, with regard to 15% of FSEs by 2018 (given the allocation of extra funds in the same year, but to the full extent), with regard to 30% of state-run enterprises by 2018 (given the allocation of extra funds in the same year, but 90%). Application of management goals to each of the aforementioned entities also provides for their recognition in the unified system of federal property accounting and management.

This is supported by quantitatively fixed plans on annual reduction in the number of state-owned JSCs and FSUEs, as well as the area occupied by state-run land plots (except for land plots withdrawn from economic turnover and of limited transferability) which are not involved in economic turnover, and other state-run property units (exclusive of property units to be transferred to the public purse as a result of privatization of FSUEs in the period between 2013 and 2018) to these indicators in 2012. The four indicators are going to be included into the Federal Statistical Efforts Plan.

The following must be accomplished by 2018. Unitary enterprises operating under full economic jurisdiction will cease to exist, the number of state-owned JSCs will be reduced by a decade (more than 10 times)¹, the number of state-run property units (save for land plots) will be reduced by 90%, the area of state-run land plots not involved in economic turnover will be reduced by 35% (subject to allocation of extra resources and financing of land marking and cadastral registration of land plots under the items of expenses provided for the maintenance of the Russian State Register).

Eighty percent of all federal property units (a share of registered property units in the total number of identified and subject to registration property units) must be registered beginning with 2014.

In addition, the following must be qualified as key indicator:

- by 2018, an increase in and stage-wise doubling of an interest in partially state-owned companies which are publicly traded in the Russian securities market (increase in the number of state controlled open joint stock companies listed in the Russian securities market);
- ensure competitiveness, investment potential, and publicity of partially state-owned companies by 2018 (ensure that the specified companies achieve key performance indicators comparable with the world benchmark companies);
- achieve budget performance indicators on revenues from the use and sale of federal property.

Beginning with 2013, at least four purchase and sale transactions with large investment-attractive property units are expected through public offering (of such property units envisaged for sale in the decisions of the President of Russia and/or the Government of the Russian Federation in the current year) (stock market transactions and strategic sales). Performance indicators are expected to be achieved through budget appropriations to pay for investment and

¹ However, judging by the estimates provided in the attachments to the program, such a scenario can be realized only through additional financing, otherwise the number of unitary enterprises and State-owned JSCs would reduce 57% and 52%, respectively, by 2018.

financial advisors' services provided for pre sale preparation and sale of joint stock companies' share in 2013–2015, a total of Rb 5bn annually (in accordance with the Federal Law dated December 3, 2012, No. 216-FZ “On the Federal Budget for 2013 and for the Planning Period of 2014 and 2015”)¹.

The planned amount of revenues from privatization for 2012–2016 totals about Rb 3 trillion and exceeds the revenues from privatization generated over the last 18 years.

From the organizational and technical point of view, enhancement of the effectiveness of state-owned property management means the following. (1) Ensure an IT-based end-to-end accounting and control of all management processes and procedures at any stage and level, including territorial agencies; (2) ensure information transparency of the work performed by the Federal Agency for State Property Management through public access to the data on registered federal property units based on their inventory as the basis for generating complete and reliable information on managed property units; (3) define and assign areas of responsibility to every employee of the Federal Agency for State Property Management; (4) establish a special internal audit unit within the Federal Agency for State Property Management to ensure the implementation of compliance controls of approved regulations, processes, and procedures.

A key indicator of the national program with the regard to the foregoing is full transition to electronic information flows by 2018: all public services must be provided electronically, while legally valid e-document flow between the Federal Agency for State Property Management and its territorial branches with government agencies must account for 99%. This will allow the required level of transparency and controllability of all processes.

Legal support to the program provides for the adoption of more than 25 legal acts within five years to come, including amendments to the federal laws on privatization of state municipal property, on state registration of the rights to real property and transactions therewith, on unitary enterprises. The Ministry of Economic Development and Trade plans to perform additional work on accounting and management of intangible assets in the Russian Agency for Patents and Trademarks.

Though the new conceptual document is quite ambitious, it has the following major issues which may be encountered during its implementation.

First, property units whose target functions are not determined will be automatically included into the privatization program after January 1, 2015. Therefore, federal executive bodies would have to assign such functions for the assets they manage prior to the foregoing date.

On the one hand, this approach may encourage public authorities to retain as many property units as possible, and create an additional motivation for the management of subordinate enterprises and agencies to withdraw assets and gain private benefits from control in view of uncertainty about their positions.

However, public authorities may acquire a far more negative behavior, when the primacy of using the departmental approach in determining a target function of state-owned property

¹ The foregoing budgetary appropriations are assigned to the Ministry of Finance of Russia, and under the consideration protocol of the list of unagreed subject matters concerning allocation of maximum amounts of budgetary appropriations for 2013 and the Planning Period for 2014 and 2015 on the Ministry of Economic Development and Trade of Russia (SPB 68) of August 16, 2012, the question of payment for the services of investment advisors will be considered by the Ministry of Finance of Russia according to the established procedure subject to a decision of the President of Russia or the Russia's Government.

would be based on a plane interest in exclusively socio-cultural and household-purpose units which are involved in servicing the management of specific public authorities and their personnel, rather than the interests of the state and national economy at large.

A big problem is to adequately determine a target function for each of the units in the state-owned property portfolio. The multipurpose nature of a series of state-owned assets must be taken into account.

On the other hand, the proposed approach may increase the volume of property units which may be potentially privatized in 2–3 years. Unavoidably, it raises the question of setting concrete dates and options of privatization, given the market conditions and demand for assets possessing a lot of specific features. Appearance of a great deal of extra property in the market would lower prices of assets for sale, being critical against the priority of budget approach towards privatization.

Extremely advisable is elaboration of potential effects of privatization based on its expedience, comparative economic and allocative efficiency of the public and private sectors, opportunity costs, potential risks and impact on the development of specific markets, industries, regions, and the national economy at large.

Second, though the new national program proclaims transformation of privatization for being used as a tool for fundraising to develop and upgrade state-owned enterprises and create new jobs, develop competition and markets by reducing state participation in the economy, involving property in economic turnover, it lacks any indicators for the achievement of these goals.

In the light of these facts, a lot of raised eyebrows is caused by mentioning in the assessment the planned effectiveness of the program as expected final results and socio-economic effects contribution to modernization of the Russian economy, creation of conditions for the mass emergence of new innovative companies in all economic sectors, structural diversification of the economy based on the innovative technological development. The same is the case for the quality of corporate governance.

Mentioning post-privatization monitoring and follow-up of the results of the development of property units which became private has no reference to any legal and organizational arrangements of such actions. In spite of all the negative aspects revealed during investment tenders in the course of privatization in the 1990s, no question has been risen of control enforcement and adequate sanctions against mala fide purchasers of state-owned assets. A federal special follow-up monitoring makes sense only to the extent that the state has adequate possibilities to influence new owners. So far, one can see lack of monitoring of the development even those enterprises and JSCs which were previously in the list of strategically important enterprises, i.e. there were officially recognized as important ones¹.

However, this aspect of privatization raises a more fundamental question about a degree of priority of the ownership right itself against other provisions, in particular when there is a lot of talking about the state putting a pressure on businesses, an ideal model of relationship between the state and the business comes down to timely tax payment and compliance of sanitary, environmental, and some other similar legal requirements by the latter.

Third, the provided therein rates of reduction in the number of state-owned JSCs and FSUEs are not substantiated whatsoever either from the perspective of final assessment of the

¹ Left aside was the issue relating to the effect of the previous privatization on most of industries and production entities with an overwhelming share held by private owners, but being far behind other countries in terms of effectiveness or failed to recover from the effect of transformation-related recession (these are mostly secondary industry and research sector enterprises).

number of such economic agents which would allow public functions to be performed and the state to play an adequate role in the economy, or from the point of view of engagement of any concrete mechanisms of state asset management (different types of unitary enterprises, an interest of any value in the charter capital of business entities (JSCs and LLCs), entitlement to a special right (golden share), forms of incorporation which are formally related to non-profit entities (public corporations and partially state-owned companies, stand-alone agencies and non-profit organizations)).

The focus on non-existence of unitary enterprises operating under full economic jurisdiction by 2018 (while ignoring this form of incorporation in general) would unavoidably result in retaining state-run enterprises whose obligations fall under subsidiary liability of the state. Neither is considered the aspect of comparative performance of transformation of unitary enterprises to other forms of incorporation in accordance with the selected type of legal entity (limited liability companies, stand-alone non-profit organizations, stand-alone agencies). A series of examples (e.g., Oboronservis JSCo) show that the OJSC status itself neither guarantees a better safety of property units, nor ensures in full government interests vs. a unitary enterprise.

Fourth, it is provided thereby to reduce to 30% a share of public sector employees in management and control bodies at partially state-owned JSCs beginning with 2014¹, as well as their concentration in audit committees being the weakest and mostly token corporate departments in the Russian practice. The participation of public sector employees has a very weak effect against the refusal to use directives as a control tool for the state as shareholder. However, it is the audit committees where specialists with specific knowledge and solid experience in auditing, accounting, etc. are in high demand.

Being regarded as an alternative, the institution of professional directors which are suggested to be engaged in management bodies of subsidiaries and affiliated entities of vertically integrated holdings and enterprises in the military defense sector (in addition to the existing practice) is not a plaster for all scores in performing corporate governance procedures.

Furthermore, reasoning from the formal primacy of financial considerations, a public sector employee representing the state interests is more independent, because he/she is not entitled to be paid directly by a company. In spite of all negative aspects relating to representation of state interests by public sector employees, it is quite clear what spectrum of sanctions they may be subject to (disciplinary penalties, deprivation of incentive payments to a basic salary, dismissal from work, disqualification with prohibition to certain occupations), whereas in case with independent directors there is an unavoidable question of adequacy of their reputational responsibility, and a possibility of making them subject to statutory provisions on asset and income disclosure on a mandatory basis.

Furthermore, according to deputy prime-minister Dvorkovich A., withdrawal of public sector employees – senior managers – from boards of directors would create a clean vacuum in the interaction between companies and government agencies, giving rise to the need to arrange an alternative mechanism to align positions, because on-going interaction, regular meetings, consultancies on elaboration of positions are vital for effective governance of partially state-owned companies.²

¹ Except for those operating in the military industrial sector or relating to the national defense.

² Public officials withdrawal from state-own companies requires a new type of interaction, 07.02.2013, RIA-Novosti – Ekonomika.

Fifth, according to the data provided by the Head of the Ministry of Economic Development and Trade, the current scale of state-owned assets at the federal level is much smaller than in 1999 by all categories of legal entities: more than 2,300 joint stock companies against about 3,900 (a reduction of 40%), about 1,800 state unitary enterprises against almost 13,800 (a reduction of 7.7 times), 20,200 agencies against 23,100 (a reduction of 12%), respectively. Thus, the trend towards quantitative reduction in volumes of state-owned property was developing anyway without taking a goal-oriented approach towards assets. However, a question of the quality and effect of privatization in the 2000s was left aside. However, no critical analysis of this subject matter is available in the new national program.

This is not to say that the volume of financial resources envisaged for the implementation of the national program looks very impressive: a total of Rb 33.4bn of federal budget funds for 2013–2018¹, while a total of Rb 19bn as additional financing is provided for by the national program if new additional opportunities emerge in the federal budget. The amounts of extra financing in 2013–2018 of liquidation (Rb 6bn) and maintenance (Rb 6.9bn)² of most hazardous state-run enterprises looks fairly small thereby contradicting one of the basic concepts of the new national program, about the state encumbrance on surplus assets and substantial budget overruns.

The foregoing amount of budget allocations is comparable with the decade-old total federal budget revenues from privatization (sale) and the use of state-owned property (2000–2002) or in the crisis-hit 2009, let alone the government revenues in the previous year or the government expenditures on the implementation of prestige projects (APEC summit, Olympic Games in 2014, etc.).

¹ A total of Rb 103bn of financing till 2018 was provided for by the draft national program which was published late in January 2013. However, this amount seems to be very moderate.

According to the Head of the Federal Agency for State Property Management, the difference can be explained by the availability of a second subprogram on public tangible reserve in the structure of the national program, whereas the amounts of expenditures presented at the Russia's Government meeting on February 7, 2013 are related exclusively to the activity of the Federal Agency for State Property Management.

² In addition, about Rb 0.9bn of the total additional financing may be allocated to complete the paperwork concerning technical inventory, registration of proprietary rights, and cadastral registration of land plots as part of the corporatization of unitary enterprises.