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The review provides a detailed analysis of main trends in Russia's economy in 2013. 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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Public Sector and Privatisation in Russia in 2013

The core events which took place last year and which are related to the issues under consideration are the approval of a new three year privatisation programme for 2014–2016, including corporate control of market transactions associated with Rosneft and Gazprom, as well as the restructuring of the space industry, which is similar to that performed in relation to the aerospace and ship building industries.

The scale of the public sector in the Russian economy

In the middle of 2013 the Russian government approved a new privatisation programme. This document, like previous ones, contains data for the beginning of the calendar year on the number of federal state unitary enterprises (FSUEs) and joint stock companies in the capital of which the RF (Russian Federation) has an interest. Unfortunately, there is insufficient information to assess objectively the dynamics of these components of the public sector at the start of 2013.

However it should be noted that, in the period between 1 January 2010 and 1 January 2013, the number of FSUEs decreased by fifty percent in total (from 3,517 to 1,795), the number of joint stock companies the shares of which are in federal ownership, reduced by more than 1/5 (from 2,950 to 2,337). It is also worth mentioning that, as shown in the new privatisation programme, the number of unitary enterprises at the beginning of 2013, is equal to that which prevailed on 1 February and was announced by A. Belousov, the former Minister of Economic Development of the Russian Federation, at the session of the Government of the RF, on 7 February 2013, for the approval of the new programme for federal property management. Meanwhile the number of joint stock companies with state interest is slightly different (2,337 vs. 2,325 as of 1 February 2013). According to the Department of the Federal Property Register of the Federal Property Management Agency, the data on the shares of 2,337 joint stock companies and on interest in 19 limited liability companies were recorded in the register as of 31 December 2012.

The total number of facilities recorded in the federal property register in 2012 increased by 102,336 (1,471,782 facilities as of 1 January 2013 vs. 1,369,446 facilities as of 1 January 2012)¹, or by 7.5%.

Following the results of monitoring the composition of the public sector conducted by Rosstat (Federal State Statistics Service) the following quantitative dynamics of the business entities comprising this sector was observed between the middle of 2011 and autumn 2013 (*Table 1*).

Table 1

Number of public sector organisations within the of economy, as recorded by regional directorates of the Federal Property Management Agency and bodies for the management of public property owned by RF subjects in 2011–2013

Date	Total**	PUE (state unitary enterprises)	Public institutions	Business enterprises of which 50% of the shares (interest) in the charter capital are
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¹ www.rosim.ru, 15.05.2013.

			including fiscal enterprises				in public ownership		in the ownership of business companies which are parts of the public sector	
	items	% as of 1.07.2011	items	% as of 1.07.2011	items	% as of 1.07.2011	items	% as of 1.07.2011	items	% as of 1.07.2011
As of 1 July 2011*	72,047	100.0	6,245	100.0	59,483	100.0	3,928	100.0	2,391	100.0
As of 1 January 2012*	69,689	96.7	5,805	93.0	57,839	97.2	3,733	95.0	2,312	96.7
As of 1 July 2012*	69,251	96.1	5,282	84.6	58,049	97.6	3,593	91.5	2,327	97.3
As of 1 January 2013	67,003	93.0	4,891	78.3	56,247	94.6	3,501	89.1	2,364	98.9
As of 1 July 2013	66,131	91.8	4,589	73.5	56,100	94.3	3,201	81.5	2,241	93.7
As of 1 October 2013	65,272	90.6	4,502	72.1	55,244	92.9	3,195	81.3	2,331	97.5

* – federal property accounting is provided in accordance with RF Government Regulation No. 447 On Improvement in Federal Property Accounting as of 16 July 2007;

** – including organisations for which publicly registered constituent documents do not indicate specific types, but 50% of the shares (interest) of which (excluding joint stock companies) are in joint public and foreign ownership.

Source: About the development of public sector of the economy of the Russian Federation in the first half of 2011 (pp. 7–11), in 2011 (pp. 7–11), in 2012 (pp. 7–11), in the first half of 2013 (pp. 7–11), in January – September 2013 (pp. 7–11). M., Rosstat, 2011–2013.

As shown in *Table 1* the total number of public organisations decreased by 9.4% (by approx. 6,800) in the period between 1 July 2011 and 1 October 2013, therefore totalling about 65,300 by the end of this.

The key factor contributing to these results was a decrease in the number of unitary enterprises by 27.9% (or by almost 1,750). The percentage decrease in entities was not as big (by 7.1%), however the absolute decrease (by more than 4,200) was more significant. By 1 July 2013 the number of business companies, 50% of the shares (interest) in the charter capital of which are in public ownership, had decreased by a far greater proportion (by 18.7%, or by 730 units). As a result, the number of businesses, 50% of the shares (interest) in the charter capital of which are in the ownership of companies which belong to the public sector, decreased by 2.5% (by 60). Therefore, on 1 October 2013 there were more than 2,300 of these business entities, which is almost equal to the number observed in the middle of 2012.

However in the first three quarters of 2013 the total number of public organisations decreased by 2.6% (by more than 1,700).

The number of unitary enterprises decreased the most (by 8% or by approx. 400). Although the number of public institutions decreased by just 1.8%, the absolute decrease was actually larger than that of the unitary enterprises (about 1,000). At the same time, the number of business companies, 50% of the shares (interest) in the charter capital of which are in public ownership reduced by 8.7% (by more than 300). The number of businesses 50% of the shares (interest) in the charter capital of which are in the ownership of companies which are part of the public sector reduced by 1.4% (or 30 items), although in the third quarter of 2013 after decreasing to their lowest level for two years (to 2,240 items) their number increased by 4%, or 90 units), whereas in the first half of 2013 there had been a decrease of more than 120 units.

It should be emphasised that this analysis of the quantitative dynamics of public organisations was based on the number of such organisations at a specific date, which only allows estimation of the most general trends, characterised by a decrease in the public sector entities. The available statistics do not allow for an assessment of the demography of each

category of business entity within the public sector – their creation, liquidation, reorganisation into other forms of incorporation, i.e. the analysis which would be possible with a number of observations over a period of time.

Regarding the State presence in the economy as a manufacturer of goods (works, services) the following can be noted. Monitoring conducted by Rosstat partially confirms the widespread idea that the public sector share in different summary indicators of business activities has grown when compared to the pre-crisis period (*Table 2*).

Table 2

Share of the public sector in the economy, based on main indicators of business activity in 2007, 2010, 2012 and 2013, %

Indicator	2007	2010	2012	January-September 2013
Volume of shipped goods of own production, works and services performed with the use of own resources				
- mining	12.8	9.8	16.5	21.2
- fossil fuel production	11.8	9.0	16.6	21.7
- manufacturing	8.4	8.7	9.8	10.9
- production and distribution of power, gas and water	11.4	17.8	25.7	25.1
volume of construction works performed with the use of own resources	4.0	4.1	3.8	3.9
Passenger turnover of transport organisations*	65.9	56.1	64.5	63.0
Volume of commercial transportation (dispatch) of goods performed by transport organisations (excluding pipeline transportation)	72.9	78.4	76.0	75.3
Commercial freight turnover performed by transport organisations (excluding pipeline transportation)	94.6	93.6	92.9	93.2
Communications services**	9.8	15.2	14.2	14.1
Internal costs of research and development activities	72.4	73.4	75.4	73.9
Volume of paid services rendered to the population	16.4	18.9	18.9	19.4
Investments in fixed assets	19.5/	24.5/	28.8/	27.7/
From all sources of financing***	15.0	17.8	20.9	18.9
Net proceeds from sale of goods, products, works and services (excluding VAT, excise tax and other similar obligatory payments)	10.2	18.9	12.6	12.0
Average number of employees in the public sector	24.9	24.9	25.8	26.8

* – excluding municipal electric passenger transport organisations;

** – net proceeds from sale of goods, products, works and services (excluding VAT, excise tax and other similar obligatory payments);

*** – the numerator excludes small business subjects and investments which cannot be observed by using direct statistical methods.

Source: On the development of the public sector economy in the Russian Federation in 2007 (pp. 9, 42, 90-91, 92, 103, 134–135, 136, 143–144, 164), in 2010 (pp. 13, 46, 48–49, 50, 53, 61–62, 63, 67–68, 89), in 2012 (pp. 13, 35, 37–38, 39, 42, 50–51, 52, 56–57, 78), in January - September 2013 (pp. 13, 33, 35–36, 37, 40, 42–43, 44, 48–49, 70). M., Rosstat, 2008, 2011–2013.

However, despite some growth, as observed in *Table 2*, in 2012 and following the results of the first three quarters of 2013, as in the 2000s, the public sector share, based on most indicators, remained small (not more than 20–25%). It was larger in terms of investments (20–30%) and employment (about 25–26%).

Nevertheless, the official statistics show a significant increase in the relative weight of the public sector in 2012–2013, as compared to 2010, in mining (including fuel and energy production), in the production and distribution of electricity, gas and water and in investments into fixed assets.

The largest increase in the share of the public sector was observed in the production and distribution of electricity, gas and water. In 2012, and in January - September 2013, this share exceeded 25% (vs. 18% in 2010). There was a significant increase in the public sector share in

the mining industry (including fuel and energy production) reaching 16.5% at the end of 2012, and more than 21% at the end of the first three quarters of 2013, against less than 10% in 2010.

Of special note is transportation. In 2012–2013, as compared to 2010, a decrease in the relative weight of the public sector could be observed in terms of the cargo volume (from more than 78% down to 75–76%), although not in cargo turnover - up from (92% to 93%), while the share of public sector organisations in passenger traffic, compared with that of private transport organisations, grew in comparison to 2010, although following significant growth in 2011 (more than 65%) it then tended to decrease¹.

If we consider the situation in detail we can see that at the end of 2012, and in the period from January to September 2013, the public sector was dominant in only some types of activity (cargo and passenger transportation by rail, reforestation, and domestic expenditure on research and development).

In most other cases the relative weight was 20%, except in the extraction of oil including gas condensate (the share of the public sector in January - September 2013 was about 22%), the transportation of cargo and passengers by air, as well as by road (excluding small businesses) and all types of paid services² (according to the statistics) where the share of the public sector still does not exceed 50%.

Thus, the size of the public sector as shown by the official statistics does not, for most indicators, clearly illustrate the general status of the economy; while in industry, the public sector as a whole covers some types of activities in which government participation is common for other countries as well (science, social services, transport (partially), the defence industry and the fuel and energy industry). With regard to the relative weight of the public sector in investments it should be noted that the year 2013 indicated the importance of maintaining investment activity, since the completion of a number of large projects, either directly or indirectly financed by the state, including by state companies, led to a slowdown of investment in the economy as a whole. Employment in the public sector is mostly determined by events within the subsector of budgetary institutions, mainly in the social sphere. Here the specific features enable optimisation especially as a result of problems in assessing the results of activity, and the absence of a uniform method for interpreting labour efficiency and non-commercial effectiveness.

However, the above data should be considered as a minimum, taking into account the formal non-state character of the ownership of the assets of state corporations established in 2007–2008, and the complexity of assessment of the relative weight of the public sector, since it can be assumed that some companies within specific economic fields concentrate on lower floors of ‘agent chains’.

Thus, for example, in the past year Dobrolet, a low cost airline subsidiary of the Aeroflot Group, and the regional airline Aurora were established. The latter was incorporated, being based on the companies Vladivostok Avia and Sakhalinskije Aviatrassy, however, according to the agreements entered into with the Sakhalin region, Aeroflot owns 51% of the shares, while 49% are owned by the regional government³. In the current conditions of obvious non-

¹ As to the indicators characterising the transport industry the said trends should be clarified following the yearly results as a whole.

² Within the given context transportation, medical, sanitary and health improvement and educational services are emphasized in the statistical reporting.

³ A. Zakharov. Dobrolet from Demododovo // RBK daily, 11 October 2013, pp. 1, 7; N. Kosyakova. Far East Aurora // Arguments and Facts, No. 46, p. 30. In addition, at the end of 2013 to attract investments into the reconstruction and development of airport infrastructure in 2013-2017, under conditions of public-private

transparency of ownership of any enterprise, and the availability of a multistage corporate control system which includes several levels in public companies (analogous to private companies) this is relevant to the calculation of the state share in the goods and services markets.

Privatisation policy

On 1 July 2013 the Forecast Plan (programme) covering federal property privatisation and its the main directions in 2014–2016 was approved in Order of the RF Government No. 1111-p. This is the second three-year programme for federal property privatisation.

This structurally approved privatisation programme, as before, consists of two sections. In the first section are stated the main positions of the government, forecasts of the effects of privatisation on structural changes in the economy, including plans for the privatisation of the largest companies which are leaders in their relevant industries, together with the expected federal budget receipts from the sale of federal property. The second section, as in previous years, contains a list of facilities which it is planned to privatise under the normal procedure (514 SUEs, 436 JSCs, 4 CJSCs and 94 facilities which are other properties related the RF treasury).

However, there are significant differences between the new privatisation programme and the previous similar document for 2011–2013, as approved in November 2010.

Firstly, the document does not directly articulate state policy objectives in the area of privatisation, which is atypical for any privatisation programme since 2002¹.

They are replaced partly by a reference to the purposes and objectives provided by the state programme of the Russian Federation ‘Federal Property Management’ approved by the Order of the RF Government No. 191-p as of 16 February 2013 (without any details), but mainly by reference to Decree No. 596 On the Long Term State Economic Policy as of 7 May 2012. This provides for the completion of the state withdrawal, by 2016, from the capital of ‘non-resource’ companies which are not subjects of natural monopolies or the defence industry. In this document there is a reference to subclause ‘c’ of clause 1, where the government is commissioned to take measures, by 2018, to increase the share of high-tech and knowledge-intensive industries in the gross domestic product by 1.3 times as compared to 2011 (amongst other indicators).

This correlation has raised some eyebrows as instructions to the government related to privatisation and improving the management of public property are contained in subclause ‘c’ of the second (not the first) clause of the Presidential Decree No. 596 as of 7 May 2012. If however, this is not a trivial mistake, then correlation between the sale of different state assets and growth in the output of high-tech and knowledge-intensive products is not going to be observed in the new privatisation programme.

Returning to the document content it should be noted that there are additional exceptions to the number of companies from the capital of which the state intends to withdraw by 2016, namely (1) from joint stock companies and enterprises included in the list of strategic

partnership in the amount of RUR 7,783.3m by the government of the Sakhalin region it was decided to transfer to regional ownership the federal shareholdings (100%) of 5 airports on the island, Sakhalin Airport and a number of airport property complexes.

¹ In the previous privatisation programme for 2011–2013 these were the creation of conditions for extra budget investments into the development of joint stock companies based on new technologies; reduction in the public sector in order to develop and stimulate innovative initiatives by private investors; improvement in corporate management; securities market development; formation of integrated structures in strategic industries; the generation of federal budget revenues.

organisations, (2) from minority public stakes in joint stock companies which are subsidiaries of parent companies in vertically integrated systems - for subsequent inclusion in the charter capitals of the parent companies of the relevant integrated structures, as well as (3) from single shares of joint stock companies which are in federal ownership, where the costs of preparation for privatisation exceed the possible income from such privatisation.

Secondly, the forecast of the effect of property privatisation on structural changes in the economy represents, for the first time, the break up and distribution of businesses in public ownership where it is planned to privatise them in terms of their economic activities rather than industry sector. This means that the content of the privatisation programme is brought into line with the classification which has been used in statistical reporting from 2005 and to which the Auditing Chamber of the RF refers repeatedly. The problem of such a change is the impossibility of correctly matching the structures of the businesses in federal ownership.

Meanwhile, as in the previous privatisation programme the forecast of the effects of property privatisation on structural changes in the economy has been performed only 'on paper' since it does not even provide an overall assessment of the overall expected changes in the share of the public sector, quite apart from the effect of privatisation on the dynamics of output, employment, investment and innovation, or on the tax burden on public property, state tax discipline, etc.

Thirdly, the plans for privatisation of the largest companies have undergone dramatic changes as compared to those in force under the 2011-2013 privatisation programme, this process being described in detail in the Order of the RF Government No. 1035-p as of 20 June 2012.

The list of assets to be privatised is largely unchanged. Excluded from the list are Rosagroleasing and Rosselkhozbank (previously the state planned to terminate participation in the capital of both companies by 2016) and FGC UES (it was planned to reduce the size of the state holding by 75% plus 1 share), while, added to the list were: ROSNANO (a planned reduction in the state's share in the capital by 90% by the issuing and allocating additional shares), Rosspirtprom, Rostelecom, the State Transport Leasing Company and two metropolitan airports.

However, as opposed to the 2011-2013 privatisation programme, in the version as of June 2012, the reduction of the Russian Federation participation in the charter capital of many of the largest companies provides for maintaining corporate control, or at least, the possibility of influencing corporate governance procedures through 'blocking' stakes (25% plus 1 share).

This last option of state participation is provided in relation to the JSC, ALROSA, (with the coordination of the sale of shares in the public ownership of the Republic of Sakha (Yakutia) and in municipal ownership), OJSC Aeroflot – Russian Airlines and Modern Commercial Fleet. For 2016, the share of the State in the capital of RusGidro and VTB Bank is to be 50% plus 1 share, while the share of the state's holding in the capital of Zarubezhneft will be reduced to the same value by 2020 (the intermediate value before 2016 is 90%). The previous privatisation programme provided for the withdrawal of the State from the capital of all above mentioned companies by 2016 but assumed the special right (a golden share) to allow the Russian Federation to participate in the management of joint stock companies such as Zarubezhneft, RusGidro, Aeroflot and ALROS.

The State Transport Leasing Company was added to the list including Russian Railways, the Joint Stock Company for Oil Transport, Transneft, the Dzerzhinsky Scientific and Production Corporation, Uralvagonzavod, previously included as a group where the minimum state share would be 75% plus 1 share.

There are plans to stretch the reductions of the share of the Russian Federation in the United Aircraft Corporation (UAC) and the United Shipbuilding Corporation (USC) until 2024 with the preservation of the previous change in the value of the State share in the UAC (50% plus 1 share) and a reassessment of the previous planned change in the State share in the USC (up to 75% plus 1 share vs. the previous: 50% plus 1 share).

In this context it is unclear why the State's share in the capital of INTER RAO UES (at 0% plus 9 shares) should be preserved, as earlier it was planned that the State would withdraw from its capital completely by 2016 (currently the company is included in the list of strategic organisations).

One of the most significant differences from the previous privatisation programme is the reduction in the share of OJSC ROSNEFTEGAZ in the charter capital of Rosneft by 50% plus 1 share by 2016 (earlier it was stated that there would be a complete withdrawal by this time limit). It is possible that, up to 2015, Rosneftegaz may act as an investor in relation to the fuel and energy sector companies where there are plans to privatise their share holdings, on the condition that it submits a programme for financing these transactions which provides for the use of dividends from the shares of the companies which are in the ownership of the joint stock company.

It is stated in the programme that a possible reduction of the State's share in OJSC VTB Bank by more than 50% plus 1 share will be coordinated with the decrease in the State's share in Sberbank of Russia¹, although the new head of the Central Bank of the Russian Federation asked for the removal from the text of the projected privatisation, items related to the possible changes in the equity in the banks after 2016, and reported that the Central Bank of the Russian Federation does not have any plans for decreasing the Russian Federation share in the capital of Sberbank.

In 2014–2016 the State will withdraw from the capital of 7 companies (Rosspirtprom, the United Cereal Company (UCC), ROSNANO, Rostelecom, Sheremetievo International Airport (SIA), Vnukovo Airport and Vnukovo International Airport), amongst which only the UCC and SIA had this perspective before 2016 according to the previous privatisation programme. However, with regard to the three metropolitan airports, the decisions of the RF President and the RF Government for strategic development of the Moscow airport hub will be taken into account. These companies and a range of others (UCC, ALROSA, Rostelecom) may use the special right to allow the Russian Federation to participate in the management of joint stock companies (golden shares).

In addition, it should be noted that the withdrawal of the State from the capital of each such company will most probably trigger further issues.

First of all, regarding Rostelecom in respect of which the Spring 2012 Presidential Decree approved reorganisation in form of amalgamation with the Investment Communications Company (known as Svyazinvest) with the exclusion thereof from the list of strategic organisations, on the condition that the state and Vneshekonombank control more than 50% of the ordinary shares of Rostelecom. Meanwhile by the beginning of 2013 the reorganisation of the public sector within the telecommunication industry was only at the stage of the issue of additional shares to Svyazinvest itself, within the framework of which the State will transfer the holding core assets (including shares in Central Telegraph, Bashinformsvyaz and other companies). If Rostelecom intends to retain its share in Svyazinvests (25% plus 1 share, with the

¹ According to the Ministry of Economic Development and Trade of the RF and the Federal Property Management Agency VTB will lose its competitive advantages in the case of any further decrease in the State's share, with the retention of the relevant share in Sberbank.

remaining capital owned by the State) the company is to participate in the additional issue of monetary resources.

In this regard we must remember that the last sale of shareholdings by Svyazinvest was repeatedly postponed for a variety of reasons. In the 2000s, apart from the reorganisation and optimisation of the holding's corporate structure, there were several social and regional issues (tariff reform, social problems of regional communication operators being its subsidiaries and affiliates) and restrictions related to national safety (providing communication services to defence and law enforcement agencies to protect the interests of these special users of communication services). The practical mechanisms to resolve such problems whilst implementing the new format for absorbing Svyazinvests into Rostelecom have not yet been disclosed.

As for Rosnano, attention is paid to the issue of compensation for the budget expenditure incurred in recent years in order to provide the asset contribution of the State into this former State corporation, together with the issue of the effectiveness of development institutions as a whole. As to the UCC the issue is the use of funds raised by closed subscription in 2012, as well as the storage of state grain reserves and its participation in commodity and purchasing interventions. For Rosspirtprom the focus is on its control over the alcohol market where there has been an obvious decrease in the legal sales of alcoholic beverages after the increase in excise duties (being a traditional source of budgetary income in Russia. As to the metropolitan airports, attention is paid to their power to attract further budgetary funding for restructuring, and the degree of transparency of the new capital structure in the light of multiple problems identified in the mid-2000s involving Demodedovo Airport (long term proceedings with the Federal Property Management Agency related to the problem of ownership of a number of structures and facilities and the unclear ownership structure, detected while solving issues of transport safety).

The new privatisation programme as a whole appears to be more moderate and reasonable, taking into account the maintenance of state corporate control over some companies which are natural monopolies, the infrastructure which is involved in capital intensive types of activity associated with long term payback' and over structures which play an important role in the implementation of structural and industrial policy and which acted as agents of the State while implementing anti-crisis measures during the acute phase of the crisis in 2008–2009.

The volume of budget revenues from privatisation is significantly decreased if we exclude consideration of the value of shares in the largest companies which occupy leading positions in their respective industries. In 2014–2016 budget revenue is expected to achieve RUR 3bn annually, as compared to the estimates under the previous privatisation programme of RUR 6bn in 2011 and RUR 5bn in each of 2012 and 2013.

There will be no basic receipts from privatisation at the expense of the shares of the largest companies which have high investment attractiveness in the case that the RF Government adopts separate decisions on them, whilst receipts under the previous privatisation programme amounted to RUR 1 trillion in 2011–2013.

The new programme provides for the possibility that the President and the Government of the Russian Federation can adopt decisions on privatisation by decreasing the State's share in the charter capital of a company through the issue of additional shares and by contributing proceeds to the recapitalisation of joint stock companies with regard to their long term development and the investments required, as well as through the capital adequacy ratio (in relation to banks).

Considering the information from official sources, and following the results of discussion of the forecast, the Privatisation Plan for 2014–2016 by the RF Government as of 27 June 2013, at the time RUR 630bn of direct budgetary income, may be achieved during the three years (2014 – RUR 180bn, 2015 – RUR 140bn and 2016 – RUR 300bn), mainly from sale of the shares of joint stock companies which occupy leading positions in their respective industries, and, possibly, RUR 9bn from other sales. An additional RUR 380bn could be received as Rosneftegaz dividends¹ from the sale of Rosneft shares. Altogether federal budget receipts should realise about RUR 1 trillion 20bn².

The draft federal budget for 2014 and plans for 2015 and 2016 submitted to parliament by the Russian government provided for the use of assets received from the privatisation of federal ownership as a separate source of financing the federal deficit. In this respect the relevant federal law, as with a similar document which lapsed a year ago, did not contain any information about the specific value of the income from privatisation, either in the main body, nor in the annexes. Only the memorandum to the document considered the funds received from the privatisation of federal ownership and state borrowings as a separate source for financing the federal deficit.

In this context, in 2014–2016, it is planned to privatise the shareholdings of the largest companies which occupy leading positions in their respective industries. It is the Government of the Russian Federation that will determine the periods and methods of privatisation of these companies with regard to the market conditions and advice from leading investment consultants.

The memorandum to the bill of the federal budget for 2014–2016, as submitted to parliament, detailed the content of the forecast Plan (programme) for federal property privatisation and the core themes of federal property privatisation for 2014–2016, approved by the Order of the RF Government No. 1111-p. as of 1 July 2013. These actions will allow for the attraction of funds to the federal budget in the amount of RUR 196.8bn – in 2014, RUR 158.5bn – in 2015 and RUR 99.9bn – in 2016 (*Table 3*).

Table 3

Federal budget estimated privatisation revenues 2011–2016, RUR bn

Source	2011	2012	2013	2014	2015	2016
Privatisation forecast plan (programme) and federal property privatisation fundamental objectives for 2011–2013	6.0	5.0	5.0			
BPFOs (budgetary policy fundamental objectives) for 2011 and target period for 2012 and 2013	298.0	276.1	309.4			
BPFOs for 2012 and target period for 2013 and 2014	298.0	276.1	309.4	300.0		
BPFOs for 2013 and target period for 2014 and 2015			380.0	475.0	385.0	
Estimated federal budget for 2013 and target period for 2014 and 2015 (memorandum)			427.7	330.8	595.1	
RF Government session records of 27 June 2013*				180.0	140.0	300.0
Federal budget basic parameters for 2014–2016 (RF Ministry of Finance projects)				230.8	445.1	250.0
Privatisation forecast plan (programme) and federal property privatisation fundamental objectives for 2013–2016				3.0	3.0	3.0
Federal budget draft law for 2014 and target period for 2015 and 2016 (memorandum)				196.8	158.5	99.9

* Excluding the revenues from privatisation transactions not classified as being the largest.

¹ At that meeting, the finance minister of the government of the Russian Federation expressed doubts about the reality of obtaining such sums from the company.

² However, the direct addition of income through these channels has a total value of RUR 10bn less. This difference is more than in the single official statement in the new privatization programme: (value of privatization revenues at RUR 3bn, annually during 2014-2016).

There is an evident decrease in the value of the forecast proceeds from the privatisation of public property in comparison with those specified in the memorandum with reference to the applicable federal law of 3 December 2012 No. 216-FZ On the federal budget for 2013 and for the target period of 2014 and 2015: in 2014 – by almost 40% (against RUR 330.8bn), in 2015 – by almost four times (against RUR 595.1bn). However, it is worth noting that in the publicly available versions of the aforementioned law (as amended in June and December 2013), there is no data on the magnitude of the funds from sale of shares and other federally owned forms of equity, and there is no distinction between federally owned property and the other sources of financing the budget deficit.

Within the new federal budget, the proceeds from privatisation play a subordinate role in financing its deficit. Thus, in 2014, the expected value of the privatisation revenues will amount to less than 1/3 of the funds which are supposed to be attracted in public borrowing, in 2015 – about 1/5 and in 2016 – approximately 1/10.

On the positive side the draft law submitted for the consideration of the Parliament on the budget for the next three years, among the items there are detailed projects on revenues from the use of state property. The most important role here is played by dividends on federal share packages. Thus, it is expected that in 2014 the proceeds from these dividends in the federal budget will amount to RUR 192.7bn, in 2015 to RUR 200.4bn, and in 2016 to RUR 761bn.

Such growth as is expected in 2016 would result from transfer to the federal budget of revenues in the form of dividends on Rosneftgaz shares as a result of selling 19.5% of shares minus one share of Rosneft (RUR 423.5bn) and from the supposed effect of the decision of the Government of the Russian Federation on the direction for payment dividends on shares owned by the state of at least 35% of the net value of the joint-stock companies, determined in accordance with the data of their consolidated financial statements (RUR 106.0bn). Other similar types of federal budget revenues from the use of state property through tangible assets (rental payments for land and property, and transfer of the profits of unitary enterprises) are additional.

To speak about the reality of achieving the declared target privatisation revenues for federal budget is quite difficult, because it depends both on the list of the assets supposedly for sale and their value, which is associated with the evaluation procedures and with the situation in the securities market.

According to the Federal Property Management Agency, following the results of the sales during the three years of the 2011–2013 privatisation programme, RUR 25.67bn were subject to be transferred to the federal budget, including RUR 13,286.5m – in 2011, RUR 5,900m – in 2012, and RUR 6,471.9m – in 2013 (without taking into consideration the largest sales involving investment consultants), which amounts to 160% of the task established by the forecast privatisation plan. (If we use the values specified in the text of the programme as the basis for assessment of its performance: RUR 6bn for 2011, and RUR 5bn for each of 2012 and 2013, that is, in total, RUR 16bn - without taking into consideration the largest sales). This suggests performance above the target: in 2011 – more than in 2.2 times (or by RUR 7,287m), in 2012 – by 18% (or by RUR 900m), in 2013 – by 29.4% (or by RUR 1,472m), and in total for the three years – by 60% (or by RUR 9.7bn).

At the same time, according to the Federal Budget Versus Actual Reports (on internal sources for financing the deficit) available on the Federal Treasury website, the funds from the sale of shares and from other forms of participation in the capital which is in federal ownership, amounted to RUR 126.2bn in 2011 (with an annual target of RUR 174.3bn, actually 74.41%), to RUR 43.9bn in 2012 (with an annual target of RUR 58.7bn, actually 74.72%), and to

RUR 41.6bn in 2013 (according to preliminary data) (with ne annual target of RUR 52bn, actually – 80%).

Altogether, over the three years of the preceding privatisation programme for 2011–2013, according to budgetary reporting, the federal budget received about RUR 371bn from sale of shares and from other forms of equity participation¹. This value, on the one hand, is many times higher than the estimated revenues which were in the 2011–2013 programme without taking into consideration the main proceeds from privatisation with respect to the shares of largest companies, which have high investment attractiveness. On the other hand, the proceeds to the federal budget from sale of shares in 2011–2013 has proved to be approximately 2.7 times less than the RUR 1 trillion estimate which was given in the preceding privatisation programme, taking into consideration the proceeds from the possible sale of shares of the largest companies in the case of particular decisions taken by the Government of the Russia Federation.

The mechanism of the budget process which has been developed in recent years, in which the actual text of the adopted budget law does not contain any indication of the budget revenues in relation to the privatisation, leaves a great deal of scope, to take unrestricted decisions in respect of the list of the assets to be privatised, and the timing and format of their sale.

Especially since the example of the preceding privatisation programme clearly indicated a greater probability of numerous changes and additions to the similar newly adopted document. In all, from the moment of approval of the forecast plan (programme) of privatisation of the federal property and the main areas of the privatisation of federal property for 2011–2013, pursuant to RF Government Directive of 27 November 2010, No. 2102-p, about 50 corresponding regulatory acts were adopted, 15 of which were published in 2013; 24 – in 2012; 11 – in 2011 (and one more appeared at the latter end of 2010)².

Thus, RF Government's Directive of 18 April 2013 No. 627-p approved the changes in the privatisation programme for 2011–2013, provided for the inclusion of 54 joint-stock companies and 14 federal state unitary enterprises (FGUPs), engaging in business activities in the spheres of road infrastructure, transport, agriculture and other industries, as well as 149 other pieces of treasury property, which are immovable property (primarily, land plots with buildings and facilities located on them)³.

After that, the total number of the assets subject to privatisation, which were specified in the programme, amounted to 298 FGUPs (in the initial version of the programme – 114 units which was an increase of 2.6 times), 1,428 open joint-stock companies (in the initial version – 809 units, an increase of 1.8 times), 43 closed joint-stock companies (in the initial version of the programme – 35 units, an increase of 1.2 times), 11 limited liability companies (in the first version – 10 units, an increase of 1.1 times), as well as 727 pieces of other property of the RF treasury (in the initial version – 73 units, an increase of 10 times). Furthermore, in accordance with the observations of the National Audit Office of the Russian Federation, the summary distribution of FGUPs and JSCs subject to privatisation in 2011–2013 has been refined, taking

¹ Including the funds got by the Central Bank of the Russian Federation from selling Sberbank's shares in 2012. Of course, with the consideration of the revenues from selling other assets (land and different property), the total value of privatisation revenues turn out to be higher. See the paragraph "Privatisation Policy Budgetary Efficiency" for further details.

² To add to this, by the beginning of February 2014, for the period of approval of the new privatisation programme for 2014–2016, four regulatory acts appeared which amended it.

³ Making technical changes and updating was also provided for with regard to the four OJSCs and another 11 pieces of property (with updating of the number of shares privatised, the names of the companies and the location of the pieces of immovable property). These pieces of federal property could have been of interest, first of all, for small and medium-sized business entities.

into consideration the changes made earlier in the privatisation programme, and the additions made in spring 2013.

From the practical side, the privatisation of 2013 was particularly remarkable for the six transactions with shares of the largest joint-stock companies made with the involvement of investment consultants pursuant to the decisions of the Government of the Russian Federation adopted in order to create conditions for attracting investments, to stimulate development of the stock market promotion, and modernisation and technological development of the economy, amounting to a total sum of RUR 286 bn.

Among them were:

- completion of a transaction for selling shares amounting to 55% of the share capital of OJSC Vanino Commercial Seaport (the dealmaker was CJSC VTB Capital) for RUR 15.5bn (the purchaser was Mechel-Trans LLC)¹;
- Rosneftegaz selling 5.66% of Rosneft shares in favour of BP for a total sum of RUR 148.1bn, as part of the acquisition of shares in TNK-BP, as a result of which the monetary funds from the privatisation of Rosneft shares were placed on Rosneftegaz's books, the sole incorporator of which was the Russia Federation (the consultants for this transaction were Citi and Bank of America Merrill Lynch);
- the placing of an additional issue of shares of VTB Bank, amounting to RUR 102.5bn by public subscription, bringing the state's share of capital in the bank down from 75.5% to 60.93% and the direction of borrowed funds for the support of bank recapitalisation (transaction organisers were VTB Capital, Citigroup, J.P. Morgan and Bank of America Merrill Lynch);
- the sale of shares amounting to 25.1% of the share capital of OJSC Territorial Generating Company No. 5 (TGK-5) (the dealmaker was VTB Capital) for RUR 1,080.4m (the purchaser was TGK-9);
- the sale of shares amounting to 25.5% of the share capital of OJSC Sibir Airline Company (the dealmaker was OJSC Alfa Bank) for RUR 1,133.1m (the purchaser was CJSC S 7 Group);
- the placing of ALROSA Share Company shares by means of public offer to a wide range of investors, in accordance with international standards (the dealmaker was the private unlimited company GOLDMAN SACHS (Russia), with the participation of G.P. Morgan Securities, Morgan Stanley & Co. International, VTB Capital, and Renaissance Securities (Cyprus) Limited as the underwriting banks).

This last-mentioned transaction deserves a more detailed consideration.

Late in October 2013, 7% of the shares of Alrosa AK, which were in federal ownership, were posted on the Moscow Stock Exchange, as well as 7% of shares which belonged to the Republic of Sakha (Yakutia), and 2% of quasi-treasury shares controlled by the company itself, with the purposes of ensuring a stabilisation mechanism to support the share price after the transaction. Thus, altogether, a 16% stake of ALROSA AK was placed on the Moscow Exchange.

The independent appraiser Ernst & Young – Appraisal and Consulting Services assessed the range of the market value of the ALROSA shares as between RUR 32.84 to RUR 38.21 per

¹ For further details of this privatisation transaction, which turned out essentially to be a scandal due to the quick resale by the purchaser of the government's stake (Mechel-Trans) of almost all the share to offshore companies, see 'The Russian Economy in 2012. Trends and Prospects' (Issue 34). M., IEP, p. 449–450. To add to this, in the preceding year Mechel suffered significant financial difficulties (falling capitalisation and high leverage), forcing it to appeal to state-owned banks for support.

share. The corresponding report underwent an examination by the National Russian Non-Governmental Organisation, the “Russian Society of Appraisers”. The formation of the book application from investors was carried out in the course of a road show between 14 and 25 October 2013. This resulted in a placing price of RUR 35 per share, with the provision of a premium to the weighted average price for the last six months in the amount of 6.5%. The total purchase price amounted to RUR 41.3bn, including RUR 18bn for the 7% of the shares alienated from federal ownership.

The implemented public offering of ALROSA AK’s shares to a wide range of investors in accordance with international standards became: (1) the largest Russian public share placement in 2013; (2) the largest offering of local shares listed on the Moscow Exchange, throughout the history of the Russian securities market; (3) the first public offering of the shares of a Russian state company in the materials sector for the last seven years; and (4) the largest public offering of the shares of a mining company in the world, beginning from June 2011.

To add to this, after less than in a month, a shareholders’ agreement was signed, with regard to the shares of the company, which reflected the state’s strategic targets on the preservation of the controlling interest in the company in public ownership, as well as the interaction of the Russian federation and the Republic of Sakha (Yakutia) in corporate governance of ALROSA AK. The shareholders agreement was concluded for five years with an opportunity of automatic renewal.

Undertaking an overall assessment of the transactions, made in 2013, with the shares of the largest companies, we cannot pass over the fact that, as distinct from the two previous years, those transactions prevailed by volume and structure where the budget did not obtain anything directly (an additional issue of the sale VTB shares in the Rosneft share package in the course of the transaction with TNK-BP), whereas, in 2011–2012, there was only one such transaction out of seven transactions (an additional issue of shares of the United Cereal Company (OZK) in 2012).

In 2014 the RF Government had taken decisions on selling INTER RAO YeES and Arkhangelsk Trawler Fleet’s shares for a total of more than RUR 21bn, the arrangements for the sale of which were made in 2012–2013.

By its Directive of 16 January 2014 No. 22-r, the RF Government accepted the proposal of the Minekonomrazvitiya (the Ministry of Economic Development and Trade) of Russia, agreed upon with the Minenergo (the Ministry of Energy) of Russia, concerning the sale of the federally owned 13.76% of shares in INTER RAO UES in favour of Rosneftegaz. The transaction amounted to RUR 18.8bn.

This decision had been taken for the purposes of optimisation of the structure of the INTER RAO UES share capital, increasing the transparency of the company’s management and decreasing the pressure on shares. This is an example of the implementation of the Decree of the President of the Russian Federation of 22 May 2012 No. 695, as well as of the norms of the preceding and of the effective privatisation programmes. (According to these, until the beginning of 2015, ROSNEFTEGAZ can act as an investor in relation to companies in the fuel and energy industry, the shares are scheduled for privatisation subject to the submission of the funding programme for these transactions, providing for the use of the dividends from the shares in companies which are fully owned by the aforementioned joint-stock company.

The transaction of the sale of the complete share package (100%) of the Arkhangelsk Trawler Fleet (the dealmaker was Gazprombank) for RUR 2.2bn can be used as an example of implementation of an unconventional approach within the privatisation process.

The peculiarity of the transaction lies in the special format of the interaction between the new owner (Virma LLC) and the regional authorities. There is an agreement between them, based on the voluntary conveyance of the title to one share to Arkhangelsk region. The key decisions, including the preservation of jobs and the registration of open joint-stock companies in the region in order to preserve the tax revenues received by the regional budget, are subject to agreement with the regional government, for which a seat on the Board of Directors is reserved.

The shareholder agreement between the Arkhangelsk region and Virma LLC is a unique example of the implementation of the post-privatisation control mechanism, allowing, inter alia, the balancing of the interests of the state represented by the Arkhangelsk region and those of the new owner with regard to the social obligations and improvements in business performance.

However it inevitably raises questions regarding possible conflicts of such tools with the more general legal norms, in particular, with corporate legislation (the role of the single share transferred to the regional authorities compared with the powers resulting from right to participate in control - “the golden share”), and with the adequacy of the concluded agreement for avoiding possible conflicts in the future, for example, in the case of Virma reselling all the share package of the Arkhangelsk Trawler Fleet, or a part thereof, to an outsider. This is in addition to the extent of taking into consideration all the negative experiences of investment tenders in the 1990s and the common practice of commercial tenders with social conditions, which became common under the application as long ago as in the 2000s, of the, then effective, third privatisation law.

In 2013, the Russian Auction House (OJSC RAD) also joined in the sale of government stake. RAD, acting under the RF Government Directive of 31 January 2013 No.101-r and under the terms of the agency contract with Rosimushchestvo (the Federal Property Management Agency), is undertaking the sale of shares in 36 OJSCs which were part of the privatisation programme of the preceding year.

Altogether, in 2013, RAD successfully completed 15 sales, which resulted in RUR 1,967.8m for transfer to the federal budget, and this is comparable with the sum total of the transactions on the sale of the golden shares of TGK-5 and the Sibir Airline Company (RUR 2,213.5 bn) made with the assistance of investment consultants. RAD has planned the summing-up of 9 more sales for the 1st quarter of 2014. Among the transactions to be undertaken by the Russian Auction House from June, are the sale of the federal stakes in OJSC Ulyanovsk Automobile Plant (13.19%, RUR 850.31m), the Sakhalin Shipping Company (25.5%, RUR 405.77m), and Lenmetrogiprotrans (25.48%, RUR 266m).

As for the traditional privatisation tools, the largest transaction made with the use of these was the auction for the sale of the full (100%) government stake in Moskinap for RUR 935m held by Rosimushchestvo.

Altogether, in 2013, share packages (interests in their share capitals) of 148 companies were sold (without taking into consideration the two sales of shares made with the assistance of investment consultants), while the summing-up of the share sale of 55 other companies is planned for the 1st quarter of 2014, and the conditions of privatisation have already been adopted.

When these data are compared with the results of the previous years' privatisation programmes (*Table 4*), we may say that, in 2011–2013, during the period of the first 3-year privatisation programme, the number of share packages (interests), with 730 units being sold, increased by more than 1.8 times compared with the crisis period of 2008–2010 and was also comparable with the total value of the two years before the crisis (2006 and 2007), but was

lower than in the mid-2000s, when, every year, more than 500 share packages were sold. The results of the privatisation programme in 2011–2013, with regard to the unitary enterprises look much more modest: the number of FGUPs in relation to which Rosimushchestvo issued directives concerning the conditions of their privatisation by means of reorganisation into OJSCs was 216 units and among them 182 OJSCs were registered: in 2011 – 46 units, in 2012 – 103 units, and in 2013 – 33 units), and this is approximately four times lower than the number in 2008–2010¹.

In spite of the significant number of cases of privatisation, the problems with the administration of the privatisation process are still relevant since not all the active assets included in the forecast plan of privatisation could be actually be put up for sale, because many businesses and unitary enterprises were in the process of bankruptcy, under reorganisation or liquidation and were therefore not economically active, and in some instances there was a lack of applications from potential participants in the appropriate procedures.

In total in 2011–2013 the shares of 730 companies (shares in charter capital) were sold, which was only half of the number included in the Programme of Privatisation (1,477 units) and about ¾ of the number of companies, which were subject to the terms of privatisation (975 units). In fact the shares of 573 companies were offered for sale again, and 282 of them were offered for sale more than twice, in other words through repeated auctions by means of public offer without announcement of the price.

Table 4

Dynamics of privatisation of state federal unitary enterprises and federal blocks of shares in 2000–2013

Period	The number of privatised enterprises (objects) of federal property (according to the Federal Property Management Agency, until 2004 – the Federal Ministry for State Property Management)	
	Privatised federal state unitary enterprises ^a , units	Sold blocks of shares of JSCs, units.
2000	2	320
2001	5	125 ^b
2002	102	112 ^b
2003	571 ^c	630
2004	525	596 ^d
2005	741	521
2006	...	356 ^e
2007	377	377
2008	213	209 ^b
2009	316+256 ^f	52 ^b
2010	62	134 ^b
2011	143	317/359 ^b
2012	47 ^g	265 ^b
2013	26	148 ^b

^a – all arrangements have been implemented and decisions on the terms of privatisation have been made;

^b – taking into account all blocks of shares which were announced to be ready for selling in the previous years;

^c – not including federal state unitary enterprises which were included as a contribution to the charter capital of JSC Russian Railways;

^d – taking into account 31 blocks of shares which were announced to be ready for selling in 2004 but where the results were reviewed in 2005;

^e – calculated value, based on data from the Report of the Federal Property Management Agency On the Privatisation of Federal Property in 2007 ;

¹ It is possible that this difference was not so great, if we assume that a certain number of unitary enterprises were privatised by means of transforming into LLCs (limited liability companies) and ANOs (autonomous non-commercial organisations). However, there is no official information on this matter.

^f – the number of federal state unitary enterprises which, according to the decision of the Ministry of Defence of the Russian Federation, were transformed into joint-stock companies, in addition to those enterprises which came under the same decision of the Federal Property Management Agency;

^g – calculated value, based on data from the Report of the Federal Property Management Agency on the implementation of the forecast plan (programme) of federal property privatisation in 2011-2013 regarding the total number of federal state unitary enterprises that, in 2011-2013, were subject to orders about the terms of privatisation, based on transformation into JSC (216 units) and separate data until 2011 and 2013

^h – not including sale of shares implemented with the help of investment advisers.

Source: www.mgi.ru; Materials for the meeting of the Government of the Russian Federation on the 17 March 2005 On Measures to Raise the Effectiveness of Federal Property Management. The report of the Federal Property Management Agency On the Privatisation of Federal Property in 2005. M., 2006; The report of the Federal Property Management Agency On the Privatisation of Federal property in 2007. M., 2008; The Federal Agency for State Property Management. Synthesis of activities for 2008. M., 2009; The report on implementation of the forecast plan (programme) of federal property privatisation for 2009, M., 2010; The report of the Ministry of Economic Development and Trade of the Russian Federation On the Results of Federal Property Privatisation in 2010; The report of the Ministry of Economic Development and Trade of the Russian Federation On the Results of Federal Property Privatisation in 2011; The report on the implementation of the forecast plan (programme) of federal property privatisation in 2011–2013.

In 2013 blocks of shares (shares of charter capitals) of 286 companies were actually put up for sale, while the shares of 148 of those societies were sold (shares of charter capital), which was about half of the number which were available for sale according to the stipulations on the terms of privatisation (301 units). A review of the results of share sales concerning 55 companies is scheduled for the first quarter of 2014. The unsold shares resulting from failed biddings on 221 JSCs were offered for sale again, including 130 which were offered not more than twice. The sales of shares (shares of charter capital) of 81 companies were declared as ‘failed’ in 2013.

Similar problems have also occurred during the sales of other types of property. So, during 2013 from 99 objects of immovable property put up for sale less than ¼ - 22 units (in 2011 – 3 units, in 2012 – 40 units) were sold. Bidding for 8 objects was not conducted. A review of the results of share sales concerning 69 other types of property is scheduled for the first quarter of 2014. According to the results of sales that took place in 2013, the sum of RUR 166.8m is subject to transfer into the federal budget, and for the 3-years 2011–2013 the total is – RUR 327.3m.

The formation of vertically integrated structures (VIS) has been of great importance for implementation of the privatisation programme. This has been especially true of the privatisation of unitary enterprises and of property of the Russian Treasury. So, out of 298 federal state unitary enterprises included in the Forecast Plan (programme) of privatisation of federal property for 2011-2013, 163 enterprises (or almost 55%) were subject to participation in the formation of holdings. From 522 objects of Russian Treasury property which were privatised in 2011-2013 only 65 units (or 12.5%) were sold, while the others became parts of the charter capitals of integrated structures. This process had weaker influence on the privatisation of blocks of shares (participation shares): out of 815 companies which had come under the process of privatisation, only 85 units (or 10.4%) were privatised by means of inclusion into charter capitals of parent companies of vertically integrated structures.

In total, in 2011–2013, as part of the process of enforcement of 48 Presidential Decrees of the Russian Federation and 7 decisions of the Government of the Russian Federation concerning the creation/extension of vertically integrated structures the measures of the Federal Agency for State Property Management resulted in the formation of 44 VIS. Of the relevant 41 Presidential Decrees of the Russian Federation and 3 Government decrees of the Russian

Federation 34 VIS have been fully completed (or more than $\frac{3}{4}$ of the amount of those which came under the particular decisions of the state Government).

To the privatisation programme were added 163 federal state unitary enterprises, the shares of 98 OJSCs and 462 shares of other types of property which were all subject to inclusion into the charter capitals of Rosspirtprom, Russian Hippodromes, Russian Railways, UAC and the Federal Hydroelectric Generating Company. Nevertheless, for a variety of reasons the privatisation measures could not be implemented concerning 9 unitary enterprises and 13 OJSCs. That is why, de-facto, under the process of formation of the VIS, decisions were made about the terms of privatisation of 148 of 154 federal state unitary enterprises (96.1%) and of all the shares of the OJSCs (100%) which were possible subjects of privatisation (with approval of the transfer of titles and inclusion of shares of the OJSCs into the charter capital of the appropriate integrated structures), while orders on the terms of privatisation of 457 objects of other types of property (98.9%) have also been issued.

After a break which lasted for more than a year, last year saw a resumption of active improvements to privatisation law.

By means of three federal laws (in July and December, 2013) amendments and additions were made to Federal Law No. 178-FZ On the Privatisation of State and Municipal Property as of 21 December 2001.

As a result, the law possesses the following innovations:

- the list of property categories which do not come under the power of the law was supplemented with property transferred into the ownership of the Russian Scientific Fund as a material contribution of the Russian Federation (it now includes 16 categories);
- regulations for the special privatisation of objects of socio-cultural and municipal purposes came under radical amendments.

This last change deserves closer scrutiny. The universal norm, which is included in article 30, affords the opportunity for privatisation of facilities within the property complex of a unitary enterprise, but excluding a range of categories.

In the new version of the law the number of such exceptions no longer includes orphanages, children's homes and educational institutions intended to serve people particular settlements.

As far as an opportunity to change the designation of objects of social infrastructure for children is concerned, a reference to the order approved by Federal Law No. 124-FZ On the Fundamental Guarantees for the Rights of the Child in the Russian Federation of 24 July 1998 has appeared. The former maximum preservation term of designation of privatised institutions for socio-cultural purpose (health care, culture and sports) and for municipal purposes (5 years) was extended in connection to objects of social infrastructure for children by a factor of two – but for not more than 10 years.

With regard to the opportunity for privatisation of power grids, sources of heat energy, heat networks and centralised hot water systems the new version of the privatisation law (article 30) indicates that the abovementioned objects do not come under its restrictions if they are the main production assets of a unitary enterprise, in other words if the proceeds from sales of the products and services generated using these assets is higher than the proceeds from any other kind of activity implemented by the enterprise under its charter.

Concerning the regulation of opportunities for privatisation of specified categories of municipal infrastructure that cannot be shown to be major assets of a unitary enterprise, special article 30.1 has been included into the law; it allows privatisation under the terms of obligations on constructing, reconstructing and (or) modernisation (investment commitments) and with further commitments towards operation (operational commitments).

With the legal innovations it is important to notice that they are a part of actions aimed at lifting of the existing restrictions on privatisation. Evaluation of their effectiveness and consequences is rather difficult to undertake.

On the one hand, it is obvious that the great majority of assets related to children are institutions and that is why they do not come under the power of the privatisation law. On the other hand, within the ongoing campaign for decreasing the number of orphanages and enlargement of educational institutions, and taking into account information on the packing of those institutions, the new standards look very questionable from the perspective of morality and ethics.

As far as the relaxation of restrictions on privatisation of power grid facilities, sources of heat energy, heat networks, centralised hot water systems and separate objects of such systems is concerned, the following issue remains ongoing: to what extent are all negative aspects of the experience of investment competition in the 90s and the consequences of the power sector reform in the 2000s being taken into account.

In connection with this fact, it is not surprising that the Investigation Committee of Russia (IC) has initiated a draft conferring additional powers on the law enforcement authorities for the implementation of control over privatisation. This implies inclusion into the criminal legislation of a special article 'Illegal Action within Privatisation of State and Municipal Property', introducing responsibility for the rigging of reports on asset evaluation, and the obligatory disclosure by claimants for state property, of their real owners and affiliated entities, with determination of the right for operational-search activity to make possible identity verification of the claimants and verification of provided documents¹. The last of these has become even more urgent in connection with the announcement regarding the official level of focus on 'de-offshorisation' of the Russian economy. Nevertheless it also concerns state companies, and the message from the President at the end of 2013 emphasised that fact in connection with the use of foreign jurisdiction during the implementation of the business transaction between Rosneft and TNK-BP. Nevertheless a preliminary review by the Expert Advisory Council (EAC) of the Federal Property Management Agency, for the draft on the Investigation Committee of the Russian Federation, on the privatisation of large state companies is of a more negative character and underlines the need for perfection and completeness of the already existing standards.

Presence of the State in the economy and structural politics

In 2013 major events in this area were connected to the fuel and energy industry. Foremost amongst these was the completion at the end in March of the acquisition by Rosneft of TNK-BP which had been the property of the British oil company BP and the consortium AAR, which had shared the company equally. It is important to remember in this connection that one of the elements of the transaction, besides a cash payment of \$16.64bn, was the transfer of 12.84% of Rosneft shares, which were on the company's account, to BP and the purchase of an additional 5.66% of shares of Rosneftegaz for \$4.87bn, which were on that company's account. As a result, the British company became the owner of almost 20% of Rosneft shares². In its turn the acquisition of TNK-BP made it possible for OJSC Rosneft to achieve leading positions in the

¹ Not a private case. Interview with the representative of the Investigation Committee of the Russian Federation A. Bastykin // The Russian News Paper, 15 January, 2014, № 6 (6278), pp. 1-2.

² The share of the consortium AAR in the capital of TNK-BP was repurchased for \$27.73bn.

fuel and energy sector and it created extra benefits for the shareholders of the company and contributed to the increase in its potential revenue and financial flow.

The forthcoming plans by Rosneft in the market of corporate control look rather ambitious. In the summer and autumn there was information about the possible acquisition of the oil assets of the Alliance business - group (a share in the Alliance Oil Company, Khabarovsk refinery and a share in the joint venture 'Petrol') and Domodedovo Airport (together with the Novoport holding). In the middle of the year by the purchase of 49% of the shares, Rosneft completed its acquisition of the gas company Itera, and at the end of the year Rosneft and Novatek signed the agreement on active assets exchange, provided for the exchange of the block of shares belonging to the oil company Severenergia, taking into account the participation of Gazpromneft, for the controlling interest in another gas project – Sibneftegaz.

In spring there was also information on the purchase by Rosneftegaz of 0.23% of shares of Gazprom which means it is possible, now, to speak about formal corporate control of the Government over the whole all-Russian gas monopoly even if in an indirect form. Until that moment it had directly possessed 38.37% of the shares, while another 10.74% of the shares belonged to Rosneftegaz, less than 0.9% had been under the control of RosGazifikatsiya, while the Federal Property Management Agency had a share of 74.55%. It is rather interesting that in the information on the structure of the share capital presented on the web site of Gazprom as at 31 December 2012 it was shown that the aggregate share of the government (including Rosneftegaz and RosGazifikatsiya) was 50.002%¹.

At the same time the Federal Anti-Monopoly Service blocked the purchase by Gazprom of the generating company Kvadra, controlled by the Oneksim group. Two years before that Gazprom had already failed in its attempt to purchase a large active asset in the power industry – of the company KES-Holding.

In the same spirit it is worth mentioning the purchase in spring of 2013 made by the bank VTB. For \$2.4bn it purchased the fourth largest (by the number of subscribers) cell phone operator in Russia, Tele2-Russia, from the holding Tele2 which comes under the control of the Swedish investment company Kinnevik. This transaction could be regarded as the first large-scaled acquisition in the sphere of mobile communications implemented by state companies and as a prerequisite for the possible emergence of a new mobile operator at a federal level in the case of a further sale of the active asset to Rostelecom. Supposedly, it is exactly this situation which has stirred up negative reactions from the existing cell phone operators, the so-called 'big three'.

Nevertheless, already by autumn of 2013 half of this active asset was re-sold to a consortium of investors led by the bank 'Russia' for RUR 40.4bn. As far as possible cooperation with Rostelecom is concerned, in the near future Tele2 is planning the creation of a joint venture with the Russian telecommunication holding, provided that the holding includes within the emerging mobile operator some relatively small mobile companies, the price for which is estimated at \$3.52bn. However there has still not been made any principal decision on the acquisition of the companies².

In 2013 the list of strategic enterprises and joint-stock companies underwent significant changes. Two unitary enterprises joined the list (Including Russian Post) but 7 OJSCs and 9 federal state unitary enterprises were excluded from it (including 3 enterprises subject to transformation into a joint-stock company in order to implement further transmission of the

¹ www.lenta.ru, 1 April 2013, www.gazprom.ru.

² VTB sold half of Tele2 for RUR 40bn, www.lenta.ru, 5 December 2013.

share to Rosato, 1 scientific research institution joining another one and also a liquidated Russian agency for international information RIA Novosti¹).

It is also important to underline the changes flowing from the Decree of the President of the Russian Federation No. 874 of 2 December 2013 on improvements to space industry management. The document provides for bringing the federal block of shares of OJSCs the Moscow Research Institute of Space Instrument Engineering (Moscow) to the rate of 100% with a subsequent renaming as The United Rocket-Space Corporation, (URSC).

A further increase in its charter capital involves making it a part of the State as reimbursement for the additional issue of full (excluding one share) blocks of shares of the OJSCs, created on the basis of 9 converted into federal state unitary enterprises; blocks of shares of 13 OJSCs (including 2 minority packages) and also 100% of the shares, excluding one share, of the Rocket and Space Center Progress (the city of Samara) being under federal ownership, after preliminary inclusion in its capital of 100%, not including one share, of two other target enterprises the Moscow Institution of Thermal Engineering corporation, Echo (Moscow) and the Novator Technical Center (in the town of Mirny in the Archangelsky region).

At the same time the charter capital of the two last joint-stock companies will be rebuilt as payment of additional shares placed by them. One share of each OJSC created by means of the transformation of the abovementioned 9 federal state unitary enterprises is included into Echo, together with one share of 6 of the abovementioned 13 OJSCs and the Moscow Institution of Thermal Engineering and also one share of the Novator Technical Center into charter capital of which is added one share of Echo.

In addition blocking stock interests of 4 OJSCs are being contributed to the United Rocket-Space Corporation for their further inclusion in the charter capital of the State Missiles Center named after Academician V.P. Makeev (in the city of Miass in the Chelyabinsky district), the blocks of shares of 4 OJSC (1 blocking and 3 minority ones) – for their further inclusion in the charter capital of Information Satellite Systems named after Academician M.F. Reshetnev (in the city of Zheleznogorsk of Krasnodar region), blocks of shares of 5 OJSCs (2 controlling and 3 blocking) – their further inclusion in the charter capital of the Russian Corporation of Rocket-Space Device Engineering and Information Systems (Moscow) and a minority block of shares of 1 OJSC – for Space Monitoring Systems, Management - Information and Electromechanic complexes named after A.G. Iosifian (Moscow). Four specifically named OJSCs located in Moscow, Krasnodarsky krai and the Chelyabinsky district are included in the group which consists of 13 OJSCs; their shares are supposed to be used as a contribution to the United Rocket-Space Corporation. The blocking stock interests and two more OJSCs are subject to inclusion into the charter capital of the OJSC created on the basis of transformation of the Federal State Unitary Enterprise State Research and Production Space Center named after M.V. Khrunichev (Moscow).

Taking into consideration the large scale of the planned events which embrace more than 40 enterprises from the list of strategic organisations, only 1 enterprise and 7 OJSCs are excluded. So, concerning the rocket and space industry, a variant of implementation of restructuring has been chosen, this variant is similar to the one chosen for the aircraft and marine industries, where already, since 2006-2007 the national structures of the holdings have been active in the

¹ Its property together with property of the subject of liquidation FGBU Russian State Radio Broadcasting Company Voice of Russia is transferred again to the emerging federal state unitary enterprise the International Information Community Russia Today. Those changes are a part of a wider set of measures for improvement of effectiveness of the state Mass Media activities concerning, inter alia, VGTRK, ITAR-TASS, The Russian Newspaper.

form of joint-stock companies (the United Aircraft Corporation (UAC) and the United Shipbuilding Corporation (USC)), although experience of their functioning during the last 6–7 years is rather ambiguous.

Precisely because of this, the President of the Russian Federation issued Decree of No.596 On the Long-Term State of Economic Policy (subclause 'b' of clause 2, concerning the privatisation and management of state property) as of 7 May 2012, which provided for implementation until 1 March 2013 for analysis of the performance of companies consolidated by the government, including the United Aircraft Corporation, the United Shipbuilding Corporation and Rostechologies, in order to prepare suggestions for improvement to their administration, to ensure implementation of coherent strategies for their development within the state development programmes for appropriate economic sectors; in order to gain leading positions in separate segments of the world markets for aircraft, shipping, information, communications and space technology.

Another important change concerning the energy sector is the permission to increase the charter capital of Russian Networks by means of an additional issue of shares with the increase in the threshold of government corporate control up to 61.7% (previously – 54.5%). There has been a small increase by 0.09% (from 79.55% to 79.64%) in the block of shares of the Federal Grid Company of Unified Energy System (FGC UES), subject to inclusion into the charter capital of Russian Networks.

Remember that after the completion of a long lasting process of restructuring of the energy sector and after the liquidation of RAO UES of Russia in the summer of 2008 the government turned out to be the owner of controlling interests of two infrastructure companies: FGC UES and the Interregional Grid Distribution Companies (IGDC). Decisions made in the second part of November 2012 provided for renaming the second of these as 'Russian Networks' with its inclusion into the charter capital of almost the whole federal block of shares of FGC UES as reimbursement for the Russian Networks' offer of additional shares in connection with the increase in its charter capital, together with the maintenance of direct participation of the government in the capital of FGC UES on the value of not less than one share. The abovementioned amount of the federal block of shares in Russian Networks (61.7%) is fixed for the company and it is in the list of strategic joint-stock companies.

In total in 2013 the Federal Property Management Agency implemented events on the formation of 20 vertically integrated structures (VIS), and during that year the following measures were totally completed: implementation of 12 decrees of the President of the Russian Federation within the process of formation of 11 vertically integrated structures, including the Shipbuilding and Ship Repair Center, the Federal Hydroelectric Generating Company RusHydro, the concern Oceanpribor, Russian Networks, the concern Morinformsystem-Agat, Roskartography, The Scientific and Production Corporation, Uralvagonzavod named after F.E. Dzerzhinsky, the corporation Tactical Rocket Armament, the corporation The Moscow Institute of Heat Engineering, Rosgeology and the state corporation, Rostechologies.

After well-known events connected to the company Oboronservice occurred in autumn of 2012 new authorities of the Ministry of Defence of the Russian Federation directed their activities towards reconstruction of the holding. The director of the Property Relations Department of the defence corps D. Kurakin was told that from 9 subholdings, 100% of the shares, excluding one share of each, were included into the charter capital of Oboronservice, and in its new structures only 4 of them would remain: Slavyanka (maintenance, renewal and new construction of public utilities), Oboronenergo (maintenance of electrical equipment), Voentorg (food, tailoring and laundry service), Oboronstroj (military construction). The

enterprises Remvoorzheniye, Spetsremont and Aviaremонт should be handed in to the Ministry of Industry and Trade of the Russian Federation, Agroprom should be eliminated, and Krasnaya Zvezda should be subject to reform. Realisation of military assets is supposed to be outsourced, choosing sellers based on the results of competition¹.

Public sector government issues

The legal and policy framework in the field of the management of economic entities included in the public sector remained unchanged until 2013.

At the end of the year the Law on unitary enterprises No. 161-FZ of 14 November 2002 experienced two amendments concerning reasons for the creation of state enterprises and the powers of the government as an owner of their property, which are of an editorial nature. From the point of view of content, a more important amendment was made in July 2013 and it completed the previous definition of a large transaction, as a transaction or several interrelated transactions connected to the purchasing, dispossession or the possibility of dispossession by a unitary enterprise, directly or indirectly, of property of which the value is more than 10% of the charter capital of the unitary enterprise or is 50,000 times the amount set by the federal law on the Minimum Wage for Labour, including the following phrase: ‘unless otherwise provided by federal law or adopted in accordance with their legal regulatory acts’.

After approval of the Government Resolution of the Russian Federation No. 990 On Regulations of Allocations of the Sovereign Wealth Funds (SWF) into the Securities of Russian Issuers Connected to Implementation of Self-Financing Infrastructure Projects, of 5 November 2013, it was determined that the effective Provisions on the management of the federally owned shares of joint-stock companies and the use of the special right for participation of the Russian Federation in the administration of joint-stock companies (golden shares) dated 3 December 2004 is not applicable to the case management of shares under federal ownership, purchased at the expense of the Sovereign Wealth Funds in accordance with the resolution.

As far as state companies’ management practice is concerned, the focus of attention was the dividend policy and issues of payments to their executives.

The year 2013 was the first substantial time frame within which the influence of the changes and additions to the former mechanism of payments of dividends for companies, with participation of government in their capital, in order to form the revenue of the federal budget should have become visible. The federal budget was approved more than 7 years ago by Government Order of the Russian Federation No. 774-p of 29 May 2006.

By means of a similar document No. 2083-p of 12 November 2012 amendments were made to the abovementioned document which provided for the direction of payments of dividends at the value of not less than 25% of the net profit of a joint-stock company (not including revenues received from the revaluation of financial investments) unless otherwise stated by Government acts (the former edition of the document included information about the definition of the minimum share of net profit of a joint-stock company directed towards the payments of dividends). Representatives of the government interests in joint-stock companies had to ensure the implementation of provisions which were stipulated by the Order in connection with their subsidiaries, while the authorities had to implement coordination and approval of the investment programmes of the subjects of natural monopolies, taking into consideration the terms provided in the amendments.

¹ Ivanov M. Sergei Shoigu will leave the Oboronservice with the very minimum required, 01.11.2013; Ъ-Online.

At the same time the new edition of the document does not include information about any necessity to use the rates of free (consolidated) financial statements in a joint-stock company that has subsidiaries when determining the amount of dividends; neither does it include information about the order of the Ministry of Economy and Development to develop and approve methodological recommendations on the determination of the state position, as a shareholder, concerning the question about the payment of dividends.

According to estimates by the Chief of the Management of Corporate Systems of the Federal Property Management Agency, V. Seerikova, taking into consideration the results of the annual meeting of shareholders in 2013, only a few state companies failed to fulfill the demand set by the Government about the minimum share of net profit of a joint-stock company directed for the payment of dividends.

Among the authorities of the companies with state presence, the reduction of government workforce representation still was going on. So, in the boards of directors of OJSCs included in the special list there was a reduction in members from 141 to 122 people while the number of professional directors was increased from 293 to 347 - more in other words, by over 18%¹.

The Federal Property Management Agency approved a list of essential competences for the members of auditing commissions, and the methodology for determination of the core assets of state companies.

Under development are methodological recommendations on the management of activities of Boards of Directors of such OJSCs; methodological recommendations on management of the activities of the Audit Committee of the Board of Directors; methodology of individual estimation of the members of joint-stock companies' boards of directors with state presence; and also methodological recommendations on the use of key indicators of effectiveness which can be used by state companies, unitary enterprises and also by companies, in the charter capital of which the total proportion of state presence is 50%.

The catalyst for the question about the payments for the authorities of state companies and golden parachutes turned out to be a situation which happened to one of the members of the authorities of Rostelecom, who received from the company more than RUR 200m for prescheduled termination of his employment contract. The information about such a big sum was made public and instigated a wave of negative judgments in the field of the close association of authorities and public organisations and stirred up claims from minority shareholders of the company.

As a result, the situation was followed by the decision of the Court which was issued at the request of the Federal Property Management Agency; according to the decision the appropriate clause of the decision of the Board of Directors of Rostelecom was formally invalidated. After the above-mentioned decision of the Court had come into force the shareholders of the company had the right to take the matter to Court to seek the seizure of financial assets from the manager in the case of his refusal voluntarily to refund the money to Rostelecom.

This case served as the basis for the introduction by the Ministry of Labor and Social Security into the Government of the Russian Federation of the bill on limits on the payments for top-managers upon separation from state companies and state corporations. In accordance with the bill, the minimum value of compensations is equal to three month's income, while the maximum value is six month's income. Financial compensation for unused annual leave is paid outside of the abovementioned restriction. In the case of termination of an employment contract

¹ www.rosim.ru, 19.12.2013.

under the agreement of both parties, the payment of any compensation to the above entities must not be implemented¹. Later the bill was laid before Parliament.

Budget effect of the government property policy in 2000–2013

In 2013, in contrast to several previous years, there was a decrease in budget revenues related to public property, and it was first observed in 2008-2009.

Remember that all federal revenues from property owned by the state can be divided into two groups. One group consists of the proceeds from the use of state property (renewable sources). The other group comprises receipts of one-time origin which may not be renewed due to the transfer of ownership from the state to other businesses and individuals after the sale including sale as part of the framework of privatisation (non-renewable sources).

Below in *Tables 5* and *6* are given the data on the income to the federal budget for 2000-2013 regarding the use of state property and selling of it only for a certain range of material objects².

Turning to the analysis of the preliminary results of the budgetary effect of the property policy of the state in 2013 in terms of renewable sources, firstly, it should be noted that there was a sharp (by more than 1/3 compared to 2012), fall in dividend income, the value of which was (RUR 134.8bn; however, this was greater than their total value for the first 2 years of post-crisis recovery (2010-2011)). The transfer of part of their profits by unitary enterprises, by contrast, grew by almost 1/4 reaching RUR 6.2bn. Fiscal revenues from land rent remained

¹ The Court found the golden parachute of the former leader of Rostelecom inadequate, lenta.ru, 5 December 2013; www.rosim.ru, 06 December 2013.

² Outside the scope were left federal budget revenues received as payments for natural resources (including water biological, revenues from the use of forest resources and subsoil use), recovery of agricultural production losses associated with the withdrawal of agricultural land, as a result of financial transactions (income from budget investments (income on the balance of the federal budget and from the placement thereof, and, since 2006, also revenues from the management of the Stabilisation Fund of Russia (since 2009 - the Reserve Fund and National Welfare Fund), incomes from the amounts accumulated in course of the auctions for the sale of shares owned by the Russian Federation), interest received from budget loans within the country at the expense of the federal budget, interest on government loans (inflow of funds from foreign governments and their entities in the payment of interest on loans granted to the Russian Federation, the income funds from enterprises and organisations in the payment of interest and loan guarantees received by the Russian Federation from foreign governments and international financial institutions)), from the provision of paid services or the reimbursement of expenses of the state, transfer of profits of the Central Bank of the Russian Federation, some payments from state and municipal enterprises and organisations (patent fees and registration fees for the official registration of computer programs, databases and topographies of integrated circuits, and other incomes, which until 2004 inclusive, were part of the payments from government organisations (other than income from the activities of the Vietsovpetro joint venture since 2001 and the transfer of part of the profits of the FSUEs since 2002)), income from the implementation of production sharing agreements (PSAs), income from the disposal and sale of confiscated and other property appropriated to the state revenue (including that transformed into state property by inheritance or gift, or treasures), revenues from lotteries, other income from the use of the property and rights owned by the state (income from the disposition of rights to the results of intellectual activities (R & D and engineering works) of military, special and dual purpose, income from the disposition of rights to the results of scientific and technical activities owned by the Russian Federation, profits from the operation and use of the property of highways, the exclusive right of disposal of the Russian Federation to the intellectual property in the field of Geodesy and Cartography, fees for the use of highways by vehicles registered in other states, and other income from the use of property owned by the Russian Federation), as well as incomes from the permitted activities of organisations to the federal budget and receipts from the sale of state reserves of precious metals and gemstones.

almost at the same level as in 2012 (about RUR 7.7bn); but revenues from renting out federal property increased by 35%, which, however, corresponds only to the level of the early 2000s.¹

Table 5

**Federal budget income from use of public property (renewable sources)
in 2000–2013 (million rubles)**

Year	Total	Dividend on shares (2000–2013) and income from other forms of participation in capital (2005–2013)	Rent for land owned by the state	Rental income from publicly owned property	Income from transfer of the profits remaining after payment of taxes and other obligatory payments of the Federal State Unitary Enterprises (FSUE)	Income from business of joint venture Vietsovpetro
2000	23,244.5	5,676.5	-	5,880.7	-	11,687.3 ^a
2001	29,241.9	6,478.0	3,916.7 ^b	5,015.7 ^c	209.6 ^d	13,621.9
2002	36,362.4	10,402.3	3,588.1	8,073.2	910.0	13,388.8
2003	41,261.1	12,395.8	10,276.8 ^e		2,387.6	16,200.9
2004	50,249.9	17,228.2	908.1 ^f	12,374.5 ^g	2,539.6	17,199.5
2005	56,103.2	19,291.9	1,769.2 ^h	14,521.2 ⁱ	2,445.9	18,075.0
2006	69,173.4	25,181.8	3,508.0 ^h	16,809.9 ^j	2,556.0	21,117.7
2007	80,331.85	43,542.7	4,841.4 ^h	18,195.2 ^j	3,231.7	10,520.85
2008	76,266.7	53,155.9	6,042.8 ^h	14,587.7 ^j	2,480.3	-
2009	31,849.6	10,114.2	6,470.5 ^h	13,507.6 ^j	1,757.3	-
2010	69,728.8	45,163.8	7,451.7 ^h	12,349.2 ^j	4,764.1	-
2011	104,304.0	79,441.0	8,210.5 ^h	11,241.25 ⁱ	4,637.85	773.4
2012	22,8964.5	212,571.5	7,660.7 ^k	3,730.3 ^l	5,002.0	-
2013	153,775.55	134,831.8	7,700.5 ^l	4,035.2+1,012.25 ^l	6,195.8	-

^a – according to the RF Federal Property Management Agency, not itemised separately in the law on the federal budget for 2000, specified is the amount of payments from state-owned enterprises (RUR 9.8871bn) (without specific components);

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

^c – amount of income from the rental of the property assigned to (i) scientific organisations, (ii) educational institutions, (iii) health care institutions, (iiii) public museums, public institutions of culture and art, (iiiii) archival institutions, (iiiii) Ministry of Defence of the Russian Federation, (iiiii) organisations of the Ministry of Railways of the Russian Federation, (iiiii) Organisations of scientific services of academies of sciences having a state status; and (iiiii) other income from renting out the property owned by the state;

^d – according to the the RF Federal Property Management Agency, not itemised separately in the law on the federal budget for 2000, the value coincided with the amount of other incomes in payments from the state and municipal organisations;

^e – the total amount of income from the rental of property owned by the state (without itemisation of land rent);

^f – amount of rent (i) for the land of cities and towns, and (ii) for land in federal ownership after the allocation of public ownership of land;

^g – amount of income from the rental of the property assigned to (i) scientific organisations, (ii) educational institutions, (iii) health care institutions, (iiii) public institutions of culture and art, (iiiii) public archival institutions, (iiiii) post offices of the federal postal service of the Russian Ministry of Communications and Informatisation, (iiiii) organisations of scientific services of academies of sciences having a state status and (iiiii) other income from rental of federally owned property;

^h – rents after the allocation of public ownership of land and money from sale of the right to lease agreements for land in federal ownership (except for lands of federal autonomous (2008-2011) and budget (2011) institutions);

¹ This value also includes the first allocated in budget reports of income from the rental of the property constituting the treasury of Russia (except for land) (about RUR1 bn).

The amount of income from land rent, as in the previous year, includes revenues from the payment for the land located in the rights-of-way of federally owned public roads of federal importance while the payment from the implementation of agreements on the establishment of easements in respect of land plots within the boundaries of rights-of-way of public roads of federal importance for the construction (reconstruction), repair and operation of the road services, construction, transfer, conversion and maintenance of utilities, installation and maintenance of advertising structures in the budget statements for 2013 was not itemised.

^j – income from renting out property located in the operational management of the federal authorities, and institutions established by them; and those under the economic management of FSUEs: placed under the operational control having state status (i) scientific institutions, (ii) scientific service institutions of the Russian Academy of Sciences and branch academies of sciences, (iii) educational institutions, (iiii) health facilities, (iiiii) agencies of the federal postal communication of the Federal communications Agency, (iiiii) public institutions of culture and art, (iiiii) public archival institutions; and (iiiii) other income from rental of property in the operational management of the federal authorities institutions established thereby; and the ones in economic management of FSUEs¹ (for 2006-2009 without revenues from the permitted activities and use of federal property located outside the territory of the Russian Federation received abroad, which in previous years were not itemised at all²);

ⁱ – income from renting out property located in the operational management of the federal authorities and institutions established by them (except for autonomous and budget ones): placed under the operational control of having state status (i) scientific institutions, (ii) scientific service institutions of the Russian Academy of Science and branch academies of sciences, (iii) educational institutions, (iiii) health facilities, (iiiii) public institutions of culture and art, (iiiii) public archival institutions, (iiiii) located in the operational management of the Ministry of Defence and its subordinate institutions (2010) (iiiii) federally owned, by order of the functions implemented by the Office of Presidential Affairs (2010) and (iiiii) other income from renting out the property located in the operational management of the federal authorities and institutions established by them (excluding income from permitted activities and the use of federal property located outside the territory of the Russian Federation received abroad);

^k – rents after the allocation of public ownership of land and money from sale of the right to lease agreements for land in federal ownership (except for lands of federal budget and autonomous institutions) as well as (i) rent for lands located in a right-of-way of public roads of federal importance federally owned (2012-2013); and (ii) payments from the implementation of agreements on the establishment of easements in respect of lands within the boundaries right-of-way of public roads of federal importance for the construction (reconstruction), repair and operation of the road service, construction, transfer, conversion and maintenance of utilities, installation and maintenance of advertising structures (only in 2012);

^l – income from renting out property in the operational management of the federal authorities and institutions established by them (except for the budget and autonomous ones) placed under the operational control of having state status (i) scientific institutions, (ii) educational institutions, (iii) health facilities, (iiii) public institutions of culture and art, (iiiii) public archival institutions, (iiiii) other income from renting out the property in the operational management of the federal state-owned institutions, (iiiii) federal government agencies, the Bank of Russia and the management bodies of public extra-budgetary funds of the Russian Federation (excluding revenues from the use of federal property located outside the territory of the Russian Federation received abroad).

Source: laws on execution of federal budget for the years of 2000-2012; report on the federal budget as of 1 January 2014 (online), www.roskazna.ru; author's calculations.

As a result, dividends have provided for the overwhelming majority of federal income from renewable sources (about 88% versus 93% of a year earlier) while the share of other sources was more symbolic: land rent, - 5%; profit transferred by FSUEs, - 4%; property rent 3.3%.

Turning to an analysis of budget revenues from non-renewable sources it is necessary to recall that since 1999 the proceeds from the privatisation and sale of state property (shares, and in 2003-2007 land spots³) began to be treated as sources for financing the federal budget deficit (*Table 6*).

In 2013 federal budget revenues of a property nature from non-renewable sources fell by about 1/3 somewhat exceeding the level of 2005. The main contribution to this result caused a

¹ In 2008-2009 Federal state unitary enterprises as a source of income from rental of property in their economic management were not mentioned, and renting out the property located in the operational management of the federal authorities and institutions established by them excludes property of the federal autonomous institutions.

² according to the RF Federal Property Management Agency revenues from the use of federal property located abroad (in addition to the income on the shares of the Russian party of Vietsovpetro) amounted to RUR 315m in 1999; and RUR 440m in 2000. Later, the FSUE Foreign property management company started to play a major role in the commercialisation of federal property abroad.

³ In 2003-2004 including for the sale of lease rights.

rapid (by an order of more 13.6 times) drop in revenues from land sales which amounted to only RUR 1.2bn against more than RUR 16.4bn a year earlier, which roughly corresponds to the values of 2008-2009. Also, revenues from various assets decreased by more than by 40%, while the proceeds from the sale of shares (RUR 41.6bn) decreased by only 5%.

Table 6

**Income of federal budget from privatisation and sale of property
(non-renewable sources) in 2000–2013, million rubles**

Year	Total	Sale of shares in federal ownership (2000–2013) and other forms of participation in capital (2005– 2013) ^a	Sale of lands	Sale of other property
2000	27,167.8	26,983.5	-	184.3 ^b
2001	10,307.9	9,583.9	119.6 ^c	217.5+386.5+0.4(ITA) ^d
2002	10,448.9	8,255.9 ^e	1,967.0 ^f	226.0 ^g
2003	94,077.6	89,758.6	3,992.3 ^h	316.2+10.5 ^j
2004	70,548.1	65,726.9	3,259.3 ⁱ	197.3+1,364.6+0.04(ITA) ^k
2005	41,254.2	34,987.6	5,285.7 ^l	980.9 ^m
2006	24,726.4	17,567.9	5,874.2 ⁿ	1,284.3 ^o
2007	25,429.4	19,274.3	959.6 ^p	5,195.5 ^q
2008	12,395.0	6,665.2+29.6	1,202.0 ^r	4,498.2+0.025(ITA) ^s
2009	4,544.1	1,952.9	1,152.5 ^t	1,438.7 ^u
2010	18,677.6	14,914.4	1,376.2 ^v	2,387.0+0.039(ITA) ^s
2011	136,660.1	126,207.5	2,425.2 ^w	8,027.4 ^x
2012	80,978.7	43,862.9	16,443.8 ^y	20,671.7+0.338(ITA) ^s
2013	55,198.5	41,633.3	1,212.6	12,352.3+0.310

^a – relate to the sources of domestic federal budget deficit financing; the amount of RUR 29.6m in 2008 (according to the report on the federal budget as of 1 January 2009) attributed to federal budget revenues; but absent in the law on execution of the federal budget for 2008;

^b – proceeds from privatisation of organisations owned by the state attributable to internal sources of financing of the federal budget deficit;

^c – proceeds from sale of land and rights to lease lands owned by the state (with itemisation of those where privatised enterprises are located) attributable to federal budget revenues;

^d – amount of proceeds from (1) the sale of federally owned property attributed to internal sources of financing the federal budget deficit; (2) income (i) from sale of apartments, (ii) from sale of productive and nonproductive funds, vehicles, other equipment and other assets; as well as (3) proceeds from sale of intangible assets (ITA) attributable to federal budget revenues;

^e – including RUR 6m from sale of shares owned by the subjects of the Russian Federation;

^f – proceeds from sale of land and intangible assets the value of income from which was not allocated separately, attributable to federal budget revenues;

^g – proceeds from sale of property owned by the state (including RUR 1.5m from sale of property owned by the subjects of the Russian Federation) attributable to internal sources of financing the federal budget deficit;

^h – includes income: (1) from sale of land on which the immovable property, that before alienation was in the federal property, to be transferred to the federal budget; (2) from sale of other lands as well as from sale of rights to enter into contracts of lease; (3) from sale of lands after allocation of public ownership of land; as well as from sale of rights to contracts on lease thereof credited to the federal budget attributable to internal sources of financing the federal budget deficit;

^j – amount of revenue (1) from sale of property in federal ownership attributed to internal sources of financing the federal budget deficit; and (2) proceeds from sale of intangible assets attributable to federal budget revenues;

^k – includes income: (1) from sale of land to the state ownership of the lands where the immovable property is located that before alienation was in federal ownership, credited to the federal budget; (2) from sale of other lands as well as from sale of rights to contract of lease thereof; (3) from sale of land after allocation of public ownership of land as well as from sale of rights to lease contracts, credited to the federal budget attributable to internal sources of financing the federal budget deficit;

^l – amount of revenues (1) from sale of property located in the federal property attributed to internal sources of financing the federal budget deficit; (2) income (i) from sale of apartments; (ii) from sale of equipment, vehicles and other assets to be credited to the federal budget; (iii) from sale of products of ships utilisation; (iiii) from sale of property of SUEs, institutions and military equipment; (iiiii) from sale of products of utilisation of weapons,

military equipment and ammunition; (3) income from sale of intangible assets (ITA) attributable to federal budget revenues;

^m – includes proceeds: (1) from sale of land before allocation of public ownership of land where the immovable property is located that before alienation was in federal ownership; (2) from sale of lands that after allocation of public ownership of land to be transferred to the federal budget; (3) from sale of other lands owned by the state before allocation of public ownership of land and not intended for housing (last update applies only to 2006) attributable to financing the federal budget deficit;

ⁿ – revenues from sales of tangible and intangible assets (net of the federal budget from the disposal and sale of confiscated property and other property converted into the state revenue) include income (i) from sale of apartments; (ii) from sale of property of FSUEs; (iii) from sale of property located in the operational management of federal agencies; (iiii) from sale of military property; (iiiii) from sale of products of utilisation of weapons, military equipment and ammunition; (iiiii) from sale of other federally owned property; (iiiii) from sale of intangible assets attributable to federal budget revenues;

^o – revenues from sales of tangible and intangible assets (excluding incomes as a proportion of profitable products of state in the performance of production sharing agreements (PSAs) and the federal budget funds from disposal and sale of escheat, and other confiscated property converted into the state revenue) include income (i) from sale of apartments; (ii) from sale of property of FSUEs; (iii) from sale of property in operational management of federal agencies; (iiii) from sale of military property; (iiiii) from sale of products of utilisation of weapons, military equipment and ammunition; (iiiii) income from sale of other federally owned property attributable to federal budget revenues;

^p – proceeds from sale of lands after allocation of public ownership of land that were federally owned attributable to finance the federal budget deficit;

^q – revenues from sales of tangible and intangible assets (excluding income as a proportion of profitable products in performance of production sharing agreements (PSAs) and the federal budget from the disposal and sale of escheat, and other confiscated property converted into state revenue, funds from sale of sequester timber) include income (i) from sale of apartments; (ii) from sale of property of FSUEs; (iii) from sale of property located in operational management of federal agencies; (iiii) from sale of released movable and immovable property of the military and other federal executive bodies which involve military and service equal thereto; (iiiii) from sales of military products from the stock of the federal bodies of executive power in framework of military-technical cooperation; (iiiii) income from sale of other federally owned property attributable to federal income the budget;

^r – proceeds from sale of lands in federal ownership (except for lands of federal autonomous and budget (2011-2012) institutions) attributable to federal budget revenues;

^s – revenues from sale of tangible and intangible assets (excluding income as a proportion of profitable products in the performance of production sharing agreements (PSAs); the federal budget funds from disposal and sale of escheat, and other confiscated property converted into the state revenue; funds from sale of sequester timber (2008-2011); income from the release tangible assets of government reserves of special raw materials and fissile materials (in part of proceeds from sale; from the provision for temporary borrowing and other use) as well as, for 2012, funds from sale of wood obtained at conducting activities for protection, conservation, reforestation with state at placement of state order for performance thereof without sale of forest plantations for timber, and timber obtained using forests on forest lands in accordance with Articles 43-46 of the Forest Code; income from commodity interventions from federal intervention fund of agricultural products, raw materials and food; from release of tangible assets from state reserve; from engaging convicts in paid work (in terms of sales of finished products) from sales of special storage products)) include revenues: (i) from sale of apartments; (ii) from sale of property located in operational management of federal agencies (except autonomous and budget (2011-2013)); (iii) from sale of movable and immovable released military and other property of the federal executive authorities which involve military and service equal thereto; (iiii) from sale of products of utilisation of weapons, military equipment and ammunition; (iiiii) from sale of military products from stock of the federal bodies of executive power in framework of military-technical cooperation (2008, and 2010-2013); (iiiii) from sale of products of utilisation of weapons and military equipment within federal target program "Industrial disposal of weapons and military equipment (2005-2010); (iiiii) incomes from sale of other federally owned property as well as income from sale of intangible assets (ITA) attributable to federal budget revenues.

Source: laws on execution of the federal budget for 2000-2012; report on the federal budget as of 1 January 2014 (online), www.roskazna.ru; author's calculations.

This source has provided more than 3/4 of the total revenues from non-renewable sources, against 54% a year earlier. The share of income from the sale of various assets and from land is 22.4% and 2.2%, respectively.

The aggregate amount of federal budget revenues from the privatisation (sale) and use of state property in 2013 (*Table 7*) decreased compared to the previous year by almost 1/3; and, taking into account the funds received by the Central Bank of Russia in 2012 from sale of the SberBank stock of shares, - by more than half. However, their amount (about RUR 209bn) was the third largest since the early 2000s after the maximum achieved in 2012 together with indicators for the year of 2011.

The ratio between non-renewable and renewable sources in the structure of total revenues from the privatisation (sale) and the use of state property in 2013 approximately corresponded to the values for 2012, excluding the proceeds from the sale of the SberBank stock of shares.

Taking into account the results of that transaction, when compared to 2012, the share of non-renewable sources in the structure of total revenues from the privatisation (sale) and the use of state property in 2013 fell by almost half (by 26.4%) when compared to the level of 2001; although exceeding the values for the year of 2010. The share of revenues from the use of public property, on the contrary, increased from almost 49% to 73.6% in 2012. The absolute value of this result is second only to the results for the end of 2012, exceeding the values for the year of 2011 by one and a half times, while revenues from the privatisation (sale) of assets are approximately 2.5 times less than in 2011, also losing indicators for the years of 2003-2004.

Table 7

**Structure of federal budget revenues of property nature
from different sources in 2000–2013**

Year	Total revenues from privatisation (sale) and use of state property		Revenues from privatisation (nonrenewable sources)		Revenues from use of state property (renewable sources)	
	Million rubles	% of total	Million rubles	% of total	Million rubles	% of total
2000	50,412.3	100.0	27,167.8	53.9	23,244.5	46.1
2001	39,549.8	100.0	10,307.9	26.1	29,241.9	73.9
2002	46,811.3	100.0	10,448.9	22.3	36,362.4	77.7
2003	135,338.7	100.0	94,77.6	69.5	41,261.1	30.5
2004	120,798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	105,761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,661.7	100.0	12,395.0	14.0	76,266.7	86.0
2009	36,393.7	100.0	4,544.1	12.5	31,849.6	87.5
2010	88,406.4	100.0	18,677.6	21.1	69,728.8	78.9
2011	240,964.1	100.0	136,660.1	56.7	104,304.0	43.3
2012	309,943.2/ 469,243.2*	100.0	80,978.7/ 240,278.7*	26.1/ 51.2*	228,964.5	73.9/ 48.8*
2013	208,974.05	100.0	55,198.5	26.4	153,775.55	73.6

* including funds received by the Central Bank of the Russian Federation from the sale of SberBank shares (RUR 159.3bn) that may somewhat overestimate the total share of non-renewable sources because these funds were not credited to the budget in full but net of their book value and the sum of the costs associated with the sale of shares. Accordingly, the share of renewable sources is probably understated a little.

Source: laws on execution of the federal budget for 2000-2012; report on the federal budget as of 1 January 2014 (online), www.roskazna.ru; author's calculations.

Basically, in 2013 economic policy in the sphere of privatisation and state property management was characterised by the same trends as in previous years. Completion of the first 3-year forecast plan (programme) of privatisation (2011-2013) has left its mark on the details of the privatisation process in the past year (the predominance of the largest transactions not directly related to funding the budget) and on the contents of the new forecast plan (programme)

of privatisation for 2014-2016 (greater moderation and reasonableness taking into account the conservation of state corporate control over a number of companies, the importance of which is beyond the ordinary course of business for the Russian economy).

With all this as problematic issues highlighted by the results of implementation of the privatisation programme of 2011-2013 one must specify the repeated corrections of the forecast plan (privatisation) which is in certain contradiction to the idea of transition from their annual approval to a longer planning horizon (3 years), as well as the lack of correlation of the privatisation mechanisms with the resolution of such tasks as the creation of conditions for attracting investment in the development of joint stock companies based on new technologies, the development and promotion of innovation on the part of private investors, the improvement of corporate governance, and the promotion of stock market development.

This year the state of affairs in the area analysed will be heavily dependent on the macroeconomic situation, which will affect both the volume of privatisation revenues and the revenues derived from the activities of the state as a business entity (primarily dividends). Additional factors requiring careful analysis in this regard are the possible solutions to regulate the tariffs of the natural monopolies, affecting, primarily, the public sector of the economy.