

GAIDAR INSTITUTE FOR ECONOMIC POLICY

**RUSSIAN ECONOMY IN 2014
TRENDS AND OUTLOOKS
(ISSUE 36)**

**Gaidar Institute
Publishers
Moscow / 2015**

UDC 33(470+571)(066)"2014"
BBC 65.9(2Poc)

R95 *Russian Economy in 2014. Trends and Outlooks.*
(Issue 36) / [V. Mau at al; ed S. Sinelnikov-Mourylev (editor-in-chief),
A. Radygin]; M.: Gaidar Institute Publishers, 2015. 520 pp.

ISBN 978-5-93255-424-1

The review provides a detailed analysis of main trends in Russia's economy in 2014. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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□ Gaidar Institute, 2015

6.1. The Situation in the Public Sector and Privatization in Russia in 2014

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

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

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

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

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

Over the year-and-a-half period (from early 2013 to mid 2014), the number of JSCs with state stakes (including those where the State held the special right to participate in a company's management granted by 'golden share') shrank by 14% (or by 342 units), including 4.7% (or by 103 units) over the first half-year of 2014. The reduction scale (by 14.3%, including 2.2% over the first half-year of 2014) was approximately the same for federal state institutions (FSI), although the resulting number was much more impressive when taken in absolute terms (by 2921 units, including 393 units over the first half-year of 2014). The number of federal state unitary enterprises (FSUE) operated by right of economic jurisdiction shrank by 5.3% (including 1.3% over the first half-year of 2014), amounting in absolute terms to 96 units (including 23 units over the first half-year of 2014). The only (and smallest) group of holders of ownership right to federal

property which increased in number (however slightly) over the period under consideration (by 5 units - to a total of 77 units) is represented by federal treasury enterprises (FTE) or federal state unitary enterprises endowed with the right of operative management. In general, the lion's share in the structure of federal property held by entities other than economic societies or partnerships belongs to FSIs (approximately 91%, or 17,537 units as of mid-2014). FSUEs, whose number over the entire year-and-a-half period was persistently lower than that of JSCs with state stakes, account for only 8.8% (or 1,704 units as of mid-2014).

Table 1

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

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

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

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

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

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

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

^f – according to the Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, by early 2014 the RF had been the owner of property of 1,181 FSUEs, which is nearly by 1/3 less than the figure reported in the Federal Property Register. *Source:* Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2011–2013; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; www.economy.gov.ru, 23 April 2013, 17 January 2014, 18 April 2014, 7 August 2014; 2013 Annual Report on Alterations to the Federal Property Register Resulting from the Arising and Termination of Russian Federation Ownership Right to Immovable and Movable Property; 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, www.rosim.ru, 19 February 2015.

According to data released by *Rosimushchestvo*, by late 2013, information on shares (or stakes) in a total of 2,113 economic societies had been entered in the Federal Property Register, including 17 LLC (the rest being represented by joint-stock companies (JSC), excluding those 90 JSC where the RF holds the special right to participate in their management without holding any shares).

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

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

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

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

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

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

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

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

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

Table 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition to shares (or stakes) in economic societies owned by the RF, another major component of the public property complex is immovable and movable property held by various categories of right holders by right of economic jurisdiction (unitary enterprises), by right of operative management (state institutions and treasury enterprises), or entities that are part of the RF treasury. In this connection, the total number of entities entered into the Federal Property Register in 2013 increased by 116,794 units (1,588,576 units as of 1 January 2014 vs. 1,471,782 units as of 1 January 2013), or by 7.9%. Over the first half-year of 2014, this index gained another 3.8%, the total number amounting to 1,648,404 units.¹

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

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

Table 3

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

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

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

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

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

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

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

Meanwhile, over the next year from mid-2013 onwards, the total number of organizations operating in the public sector dropped by 3.8% (or approximately by 2.5 thousand units). The number of unitary enterprises shrank by 7.7% (or by 350 more than units). The corresponding index for the number of state institutions was significantly lower (by only 3.4%), although the corresponding value in absolute terms was much higher - in excess of 1,900 units. The number of economic societies where the State held a stake amounting to more than 50% of their charter capital shrank by 6.7% (or by more than 200 units). At the same time, the number of economic societies where stakes greater than 50% were held by entities belonging to the public sector remained practically unchanged, while in the second half-year of 2013 it began to grow (increasing by more than 170 units), growth once again giving way to decline in the first half-year of 2014.

Our analysis of the changes in the number of state unitary enterprises, state institutions, and economic societies operating in the public sector of the national economy is based on available

data reported as of specific dates.¹ However, we have been able to identify only some more general trends. The available statistics does not allow us to trace the 'demographic developments' in each category of economic subjects, namely the specific data as to their creation, liquidation, reorganization into other organizational-legal forms - in short, the movement of that index that produces the specific figure as of a given date.

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

Table 4
The Public Sector's Share, by Index, in 2011–2014, as %

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

^a – less urban passenger electric transportation organizations;

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

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

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

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

Nevertheless, the official statistics did reflect a noticeable increase, in the period 2013–2014 on the period 2011–2012, in the public sector's share in the extraction of mineral resources

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

(including fuel and energy mineral resources), the processing industries, and the employment rate.

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

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

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

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

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

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

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

6.1.2. Privatization Policy¹

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

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

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

As a result, the list of assets earmarked for privatization in an ordinary procedure in the framework of the privatization program was noticeably increased by comparison with its initial version. Thus, the number of entities to be privatized in the category of ‘other property’ held by the RF treasury increased from 94 units to 294 units (or more than tripled), that of economic societies with stakes earmarked for privatization – from 440 units to 981 units (or 2.2 times), while the number of federal state unitary enterprises (FSUEs) earmarked for privatization increased only slightly - from 514 units to 535 units (or by only 4%).

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

For obvious reasons, the deals that had been planned and thoroughly prepared back in the period 2012–2013 became the focus of attention. In January 2014, the RF Government made

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

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

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

the relevant decisions concerning the sale of its stakes in OJSC *Inter RAO EES* (13.76% of shares) and OJSC in *Arkhangelsk Trawl Fleet* (ATF) (100% of shares) to the total value of more than Rb 21bn.

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

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

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

Although this deal is a unique example of the post-privatization control mechanism in operation, whereby it becomes possible, among other things, to ensure a proper balance of interests between the State represented by Arkhangelsk Oblast, on the one hand, and the new asset owner on the other, in the field of social liabilities and business promotion, this situation has inevitably given rise to questions as to the possible incompatibility of such instruments with the existing broader legal norms, in particular with corporate legislation (the role of the single share transferred to the oblast's government in comparison with the powers embodied in the special right to participate in a company's management granted by 'golden share'); or the sufficiency of the existing agreement for avoiding possible conflicts in the future (after the expiry of the term of the agreement with regional authorities); or, for example, in the event of resale, by LLC *Virma*, of its stake in *Arkhangelsk Trawl Fleet*, in full or in part to a third party.

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

The biggest deals concluded without the aid of investment consultants were the sales of stakes in OJSC *Opytno-proizvodstvennoe khoziaistvo plemennoi zavod 'Leninskii put'* [Experimental Horse Breeding Farm 'Lenin Way'] (Krasnodar Krai, 100%, to the value of Rb 1,563m), *Ufinskii teplovozoremontnyi zavod* [Ufa Diesel Locomotive Works] (100%, Rb

478m), Yenisei River Shipping Company (Krasnoyarsk, 25.5%, Rb 469m), *Turovskiy* (Moscow Oblast, 100%, Rb 445m), *Centrodorstroy* (Moscow, 25%, Rb 429m), *Tulamashzavod* (Tula, 74.8%, Rb 400.1m.), Electroshield Samara Group (Samara, 25.5%, Rb 281.5m.), *TEPLOO-BMENNIIK* JSC PDC (Nizhny Novgorod, 25%, Rb 276m), *SLOVO* Publishers (Saratov, 100%, Rb 256.5m), as well as a stake in LLC TM Baikal (Irkutsk Oblast, 51%, Rb 269.2m).

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

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

In 2014, the stakes (or shares in charter capital) in a total of 108 economic societies were sold, while in respect of 33 federal state unitary enterprises (FSUE) the relevant decisions concerning the terms of their privatization were taken. Besides, *Rosimushchestvo* effectuated the registration of 16 joint-stock companies created as a result of privatization of those FSUEs in respect of which the relevant decisions had been taken over the previous years.

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

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

² www.rosim.ru, 7 March 2014.

³ www.rosim.ru, 26 February 2014.

⁴ www.rosim.ru, 24 December 2014.

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

⁶ www.rosim.ru, 9 June 2014.

the one exception being the crisis year 2009 (52 units), while the number of privatized FSUEs exceeds only the corresponding index for 2013.¹

Table 5

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

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

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

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

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

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

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

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

In 2014, stakes (or shares in charter capital) in 252 economic societies were put up for sale, of which stakes (or shares in charter capital) in 108 economic societies were actually sold,² which amounts to approximately 41% of the total number of economic societies whose shares were available to potential buyers in accordance with the relevant directives concerning the terms of their privatization (266 units). Shares in 110 economic societies were put up for sale repeatedly, of which shares in 23% economic societies were offered more than 2 times (in the form of repeat auctions, public offers and sale without declaring bidding price). The completion of sale deals involving another 47 economic societies was planned to take place in Q1 2015.

As before, by no means all the assets included in the forecast plan of federal property privatization could be actually put up for sale due to the fact that many economic societies and unitary enterprises were then undergoing bankruptcy, reorganization, or liquidation procedures, were not engaged in any economic activity, or for other reasons (preparations for making a contribution to the charter capital of an integrated structure; restrictions of the privatization procedure,

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

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

or special privatization procedure; execution of the ownership rights to state stakes by bodies of executive authority other than *Rosimushchestvo*, etc.). In some cases, privatization did not take place due to lack of sufficient interest on the part of potential buyers.

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

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

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

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

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

The practice of targeted publication of information on planned biddings and properties to be privatized for the attention of sectoral and strategic investors, professional, sectoral and entrepreneurial associations and groups, and the publication of relevant information on specialized websites is also becoming more widespread.

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

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

The upshot of all the measures implemented by *Rosimushchestvo* and its territorial agencies in 2014, including the preparation for privatization of new property entities, improvement of

the sale procedure, interaction with potential investors, provision of a more in-depth information backing, was the marked improvement in the quality of bids put up for sale, with all the relevant information being more readily available.

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

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

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

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

The amount of federal budget revenue generated by privatization of federal property is forecasted to be, in 2015, at the level of Rb 158.5bn, and in 2016 – Rb 99.9bn, which corresponds to the values stipulated in the explanatory note attached to the text of the draft of the previous law on the federal budget for the period 2014–2016,¹ submitted to parliament the autumn of 2013.

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

The target figure for 2017 is Rb 3.0bn, derived on the basis of assumption that, over that period, no decisions will be taken by the RF President or the RF Government concerning sales of the federal stakes in biggest companies, as well as a result of extrapolation of the target for federal budget revenue to be generated by federal property privatization, which is set in the

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

current privatization program (less the value of stakes in biggest companies) at the level of Rb 3.0bn per annum. Of course, after the development of the new privatization program for 2017 and the next few years based on the results of the implementation of the current privatization program (which will happen no earlier than 2016 in accordance with the current wording of the 2001 law on privatization, which incorporates the alterations introduced in 2010, including the norms determining the timelines for a forecast plan (program) of federal property privatization), the privatization-generated revenue target may be significantly adjusted.

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

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

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

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

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

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

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

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

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

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

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

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

Meanwhile, according to information released to the mass media, it is planned to establish an asset manager for *Sheremetyevo International Airport* (SIA), which will be responsible, in addition to the stake in SIA (more than 83%) and some other related assets, also for the contribution made by one of Arkady Rotenberg 's companies - *TPS Avia Holding Ltd*, which in the

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

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

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

autumn of 2013 was been chosen as an investor in the construction of the new terminal in the northern zone and an underpass between the terminals, which will connect the northern and southern zones. The share of *TPS Avia* in the consolidated *SIA* may exceed 50% of ordinary shares, on condition that the company guarantees the fulfillment of its obligations relating to the construction of Terminal B, the underpass between the terminals, the cargo complex and the new aircraft fueling complex. The State will hold a stake of 25% - at least until all the obligations with the regard to the airport reconstruction are fulfilled. Possibly, private shareholders will have the option of buying out the state stake, but with a premium of 10–35%, which will be increased to 50% if they fail to fulfill any of their obligations.¹

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

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

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

The situation around the state stake in OJSC *Novorossiysk Commercial Sea Port* (NCSP) (20%) is also rather complicated. The task of organizing the deal was assigned, also in 2012, to UBS Bank LLC. In the autumn of 2014, *Transneft* (which then had under its control 10.5% of shares in *Novorossiysk Commercial Sea Port* and had become manager of the stake held by Russian Railways (5.3%)), came forth with the initiative that it should also take over the management of the state stake. Meanwhile, the controlling stake (50.1%) is held by *Transneft* jointly on a parity basis with «*Сумма*» Group.²

After the successful placement on the stock exchange market of 16% shares in *Alrosa* (two stakes, 7% each, in federal and republican ownership, and 2% of quasi-treasury shares controlled by *Alrosa* itself) and the conclusion of a shareholder corporation agreement between the Russian Federation and the Republic of Sakha (Yakutia), the next step in the evolution of the company's corporate management, in the autumn of 2013, was the signing of a special agreement on the consolidated sale with the participation of an independent seller, in the second half-year of 2015, of the stakes in OJSC *Diamond World* held by the Russian Federation (52.4%) and *Alrosa* (47.4%). Meanwhile, the company replaced its CEOs, and under their management the company considerably increased its proceeds, net profit, and dividends paid to the federal budget.³

In view of the experience already accumulated in the course of implementing the privatization program and the ongoing activity aimed at devising new approaches to the system of asset

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

² *Transneft prosil Putina otdat' ei v upravlenie gospaket NMTP* [Transneft Asks Putin to Let it Manage the State Stake in NCSP]. RIA Novosti, 15 October 2014.

³ www.rosim.ru, 14 October 2014, 22 September 2014.

sales, this year we can expect an even greater effect of the involvement in this activity of private sellers and organizers of federal property sale deals.

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

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

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

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

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

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

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

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

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

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

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

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

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

To the document formalizing that decision, the following documents must be attached: a copy of the deed for preservation of historic property for the CHP approved in the procedure established by Article 47.6 of the Federal Law of 25 June 2002, No 73-FZ 'On Cultural Heritage Property Entities (Historic and Cultural Monuments) of the Peoples of the Russian Federation', and the passport of a cultural heritage property entity as envisaged in Article 21 of the Federal Law; and until the approval of the deed for preservation of historic property (Item 8 of Article 48) – a copy of another protection document,¹ as well as the passport of a cultural heritage property entity (if applicable).

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

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

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

As for those property entities listed in the register of cultural heritage properties that have been recognized to be in an unsatisfactory condition in accordance with the Federal Law 'On Cultural Heritage Property Entities...', which are being privatized by way of sale in the framework of a tender by an empowered body of state authority, the related parties must submit to

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

the relevant property management body the business blueprints for the cultural heritage property entity preservation project, approved in accordance with the aforesaid Federal Law (at the stage of blueprints for restoration work on the site); these blueprints are included into the tender documentation package.

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

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

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

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

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

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

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

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

On the one hand, the privatization procedure to be applied to cultural heritage properties (CHP) is defined in sufficient detail. For the first time, privatization legislation has been augmented by a norm whereby a sale ‘for Rb 1’ is envisaged – which is usually applied to sale of assets with low liquidity. In this case, this is the initial (or minimum) selling price of a CHP

deemed to be in an unsatisfactory condition. In principle, such cases could be observed in recent years in actual practice - for example, in Moscow and Moscow Oblast, but that was the lease of premises at as symbolic rate (Rb 1 per m² of floor area) after the completion of a certain amount of repair and restoration work.

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

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

This rather intricate and time consuming task was carried out by *Rosimushchestvo* in cooperation with regional and municipal authorities over the period from 2007 through 2014. On the basis of applications submitted by 169 RF subjects and municipal formations, *Rosimushchestvo* drew up the lists of those entities that were to remain federal property, and the lists of properties to be transferred to other level of public ownership, which were then approved by the RF Government. In April 2014, the delineation of ownership rights was completed, as a result of which 1,123 CHPs were transferred to regional and municipal ownership, while 619 CHPs remained in federal ownership; of these, 330 CHPs had been registered by the end of 2013. The process of registration of RF titles to the aforesaid properties is to be completed by 2018.¹

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

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

¹ www.rosim.ru, 6 May 2014.

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

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

This draft law envisages a ban on participation in privatization for the citizens of countries situated in offshore zones, for the organizations registered there, and for Russian legal entities controlled by these entities, in order to ensure a transparent privatization process and eliminate any possibilities for concealing the beneficiaries of privatized properties. Besides, the new draft law is designed to introduce criminal responsibility for unlawful control exercised by a foreign investor over a Russian enterprise, if the latter is of strategic importance for this country.¹

For its part, the RF Ministry of Economic Development has voiced some concerns as to the possibility of narrowing the range of potential participants in the privatization process and thus limiting the opportunities for competition. There also exists the risk of subsequent resale of the assets thus purchased to an offshore entity. In this connection it should be noted the draft law lacks the previously proposed norms concerning criminal responsibility of property valuers for issuing property value reports based on falsified data, or criminal responsibility for issuing false expert's estimations of such reports, or criminal responsibility for conspiracy of the organizers of bidding. However, there is still one new norm whereby law enforcement agencies are to be endowed with additional powers to exercise control over the process of privatization during its preparatory phase.²

6.1.3. The Presence of the State in the Economy and Structural Policy³

Last year's major development in this sphere probably was the court ruling that the major stake in JSC *Bashneft* (71.6%), previously held by SSA *SISTEMA* JSFC, should be transferred back to Russian Federation ownership. According to the most widespread view of the situation around *Bashneft*, this happened because of malpractice and the violations of the law committed in the course of its privatization.⁴

The known circumstances of this case are as follows: (1) lack of any violations from the point of view of tax legislation, (2) the use as relevant arguments, in addition to the accusation that this in fact had been legalization of property obtained by applying criminal methods, the rather vague stipulations as to the delineation of ownership rights between the federal center and RF subjects in the initial phase of perform in the ownership system and the resulting division

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

² *FSS khotiat nadelit' pravom proveriat' uchastnikov privatizatsii* [They Want to Endow the FSS with the Right to Verify the Participants in Privatization], RBC.Daily, 11 November 2014.

³ The issue of the place and role of state entrepreneurship in the framework of different approaches to regulation and development of the economy at the macro and micro levels is dealt with in Radygin A. D., Entov R. M. Government Failures: Theory and Policy // *Voprosy Ekonomiki* [Issues of Economics], 2012, No 12, pp. 4–30; Radygin A. D., Simachev Yu. V., Entov R. M. State-owned Company: Who Is to Blame When It Fails - the State or the Market? // *Voprosy Ekonomiki* [Issues of Economics], 2015, No 1, pp. 45–79.

⁴ The example of Bashkortostan was already used to study at length the legal issues arising in connection with privatization deals about a decade ago. See Migranov S.D. *Nedeistvitelnost sdelok privatizatsii gosudarstvennogo i munitsipalnogo imushchestva* [Annulment of Privatization Deals Involving State and Municipal Property. – M.: Logos, 2005. – 240 p.

of powers, (3) the transfer of the stake in *Bashneft* directly to the State (represented by *Rosimushchestvo*), (4) there is a chance that the losses incurred by the party believed to be an honest buyer will be compensated.

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

At the same time, it is still too early to speculate about the future prospects of *Bashneft*, which over the entire period of its functioning has remained an oil company of regional importance, in view of the not-too-bright prospects of the national fuel and energy complex and Russia's economy as a whole. Besides, the State has only recently assumed the role of the principal shareholder in joint-stock companies. A distant echo of the transfer of ownership rights to the major stake in *Bashneft* was the suit filed by *SISTEMA* against OJSC *Ural Invest*, from which that stake had been bought in 2009. The first instance court ruled that *Ural Invest* must pay the enormous sum of Rb 70.7bn, although it is very likely that the court proceedings will be continued.¹

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

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

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

Besides, *Rostec* Corporation transfers stakes in another 65 OJSCs, of which 53 stakes are to become contributions to the charter capital of 4 VISs, which have been struck off the list of

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

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

strategic organizations, as a form of payment for the placement of additional shares by those joint-stock companies by way of increasing their charter capital. Most of the state stakes being transferred to *Rostec* Corporation can be described as minority stakes: only in 17 out of these 65 OJSCs the State held stakes amounting to between 25% and 50%, and only in 3 companies the state stakes amounted to more than half of their charter capital.

Since the decision concerning the establishment of State Corporation *Rostechologies* in mid-2008, it received shares in 225 JSCs (out of a total of 227 JSCs earmarked for such transfers) and in another 155 JSCs created as a result of reorganization of unitary enterprises (from among those JSCs that had been created by way of privatizing 181 FSUEs).¹

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

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

Another company allowed to reduce the state stake in its charter capital by means of an additional issue of shares will be OJSC *Roskartografia* (Russian Federal Service of Geodesy and Cartography).² *Rosimushchestvo* suggests that strategic investors should acquire up to 49% of shares in that VIS by purchasing shares of the new issue, which will be placed, by closed subscription, with the possibility of using the proceeds for investing in the company's development.

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

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

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

² *Roskartografia* is a vertically integrated structure which unites 32 affiliated OJSCs and holds stakes of 100% minus 1 share each in their charter capital, thus ensuring its presence on all the markets for geodesic and cartographic products across Russia.

Aircraft Corporation MiG), JSC Research and Production Corporation *UralVagonZavod*, *United Aerospace Corporation* (2013).¹

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

One vivid illustration is the prompt implementation of Presidential Executive Order of 21 February 2014, No 103 on the transfer of 100% stake minus 1 share in JSC *Zarubezhgeologia* to *Rosgeo*'s charter capital, the result of which was the emergence of a holding company comprising 38 enterprises, and the example of *Rosatom State Nuclear Energy Corporation*; in the latter case, the previous year's decision on the reorganization of one FSUE into an OJSC with the subsequent transfer of the entire 100% stake was implemented simultaneously with the similar decisions adopted in 2013 concerning 4 other enterprises.²

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

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

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

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

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

In order to promote of the shipbuilding industry in the Far East and boost the development of the continental shelf of the Russian Federation in the Far East and the Arctic region, the RF

¹ For a more detailed discussion of issues involved in the creation of *United Aerospace Corporation*, see Malginov G., Radygin A. Public sector and privatization (Section 6) // *Russian Economy in 2013. Trends and Outlooks* (Issue 35). Moscow, IEP. 2014, pp. 404–408, pp. 385–417.

² Since the moment of its creation, *Rosatom State Nuclear Energy Corporation's* capital has many times been augmented by various assets. Thus, last year the procedure of transfer to *Rosatom*, by way of property contributions, of the stakes in JSCs created as a result of reorganization of 6 FSUEs was completed, the actual decision concerning these transfers having been made as early as 2012.

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

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

Unitary Enterprises

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

By Decree of the RF Government of 17 April 2014, No 351 alterations were introduced into the current Rules for the development and approval of economic activity programs and for determining the part of profits generated by federal state unitary enterprises (FSUE) that should be earmarked for transfer to the federal budget (approved by RF Government Decree of 10 April 2002, No 228).

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

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

These alterations can mostly be boiled down to the introduction, into the RF Civil Code, of direct references to the special Federal Law On State and Municipal Unitary Enterprises of 14 November 2002, No 161-FZ, designed to regulate the grounds for and procedure of their creation and reorganization, their rights to property consolidated to them, their charter, and their legal status. With regard to the procedure of creating a unitary enterprise, the new stipulation appeared to the effect that this should be done on behalf of a public legal entity. At the same time, the RF Civil Code now does not contain any mention of the absence of responsibility, in

a general case, of the owner of property held by a unitary enterprise by right of economic jurisdiction for the liabilities assumed by that enterprise; and Article 115 regulating unitary enterprises operating by right of operative management was altogether abolished from 1 September 2014.

Economic Societies with State Participation

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

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

Judging by the results of the general shareholder meetings, they dealt with the issue of establishing the managerial bodies of companies with state participation. In this connection it should be reminded that, according to the existing corporate management tradition in joint-stock companies with state stakes, all the members of a board of directors elected by votes based on stakes held by the State by shareholder right can be divided into several groups: (1) representatives of the interests of the State, who are civil servants obliged to vote in accordance with the stakeholder's directives, (2) representatives of the interests of the State, who are not civil servants (professional attorneys), act on the basis of a contract and are obliged to vote in accordance with the stakeholder's directives only on a limited range of issues, voting as they themselves see fit on all the other issues, (3) independent directors voting on the basis of their own professional experience and judgment, who have been appointed by applying the established personnel selection criteria. For the sake of simplicity all the persons belonging to the second and third groups are called 'professional directors'.

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

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

Table 6

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

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

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

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

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

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

While in 2010 civil servants constituted half of the total number of state representatives in boards of directors, in the corporate year 2014 their share was only about 27%. Their place had been taken by professional attorneys, whose share in 2013–2014 was above 50% (vs. 30% in 2010), while in absolute terms their number increased 1.7–1.9 times. The growth of the share of independent directors was more modest: from less than 20% in 2010 to 23% in 2014, while in absolute terms their number increased 1.2–1.3 times. On the whole, over the period 2010–2014, the group of JSCs included in the Special List demonstrated stable growth in the number of professional directors, as a result of which their number per company increased from 3.94 to 5.63, while the number of civil servants dropped from 3.94 to 2.04. In the structure of audit boards in 2014 civil servants prevailed, amounting to approximately 3/4 (or 133 vs. 45 independent experts). However, the total number of the latter over the past 3 years tripled, while their number per company increased from 0.26 in 2012 to 0.9 in 2014.

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

Table 7

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

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

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

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

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

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

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

Thus, these data provide ample proof of the fact that the course (announced back in 2008) towards increasing the participation of professional directors (including independent directors) in the managerial bodies of JSC with state stakes, so that they would gradually replace civil servants, has been implemented rather successfully. At the same time, the emergence of crisis phenomena in the economy resulted in the government's declaration that civil servants would be temporarily returned to the managerial bodies of state companies in order to ensure stricter and more rigorous control (while the scale and timelines for such measures were not specified).¹

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

Another innovation introduced into the management of JSC with state participation has been the outsourcing of functions of single executive bodies in a company to asset managers (AM). Four asset managers are now providing these services to 29 joint-stock companies. In order to toughen control over the activity of AM, the Methodological Recommendations for quarterly

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

monitoring of the activity of asset managers, to which the functions of single executive bodies of joint-stock companies with shares in federal ownership (off the Special List) have been delegated, were elaborated and approved in late 2014 by *Rosimushchestvo*'s order.

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

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

The investment attractiveness and performance of the organizations operating in the public sector of Russia's economy should be boosted by the introduction of the Methodological Recommendations for applying the key performance indicators (KPI) for state corporations, state companies, state unitary enterprises, as well as economic societies with the aggregate state stakes, including the regional level, in excess of 50% of their charter capital; the Methodological Recommendations for the development of Long-term Strategic Development Programs of OJSC and FSUE, as well as OJSC with the Russian Federation's stakes in excess of 50% of their charter capital; Model Standards for Audits of the Implementation of Long-term Development Programs of OJSC entered on the Special List, with a sample technical assignment for the conduct of such an audit. The Methodological Guidelines for determining the specific categories of assets owned by state-owned companies depending on their core types of activity were introduced in a new wording.

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

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

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

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

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

More than 2/3 companies on the Special List (or 34 JSCs) earmarked for the payment of dividends no less than 25% of their net profit, as determined on the basis of their year-end reports of 2013. The main reason for the downward deviation of the amount of dividends from the target norm established by RF Government Directive No 774-r of 29 May 2006, introduced in the wording approved as of the end of 2012, was the loss incurred by state-owned companies by the end of a reporting period. Out of the 12 JSCs on the Special List with regard to which the RF Government issued decisions that they were not to pay dividends on the basis of their year-end reports for 2013, 10 companies were allowed not to pay dividends due to their losses. For another 8 JSCs, as of the end of summer of 2014 no decisions concerning their payment of dividends were issued.

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

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

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

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

determined on the basis of a consolidated financial report. At the same time, the potential effect of applying that measure to other companies remains unspecified.

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

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

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

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

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

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

When in 2013, by a court ruling, the decision of the board of directors of *Rostelecom* (the state stake in its capital amounting to approximately 47%) that its former CEO should receive, after the early termination of his contract, an employment termination payment amounting to more than Rb 200m was deemed to be null and void, the State Duma on the crest of a wave of

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

negative response in society approved the government draft law whereby the amount of such compensations for CEOs was restricted.

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

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

However, in the autumn of 2014, the court of cassation recognized the decision of *Rostelecom's* board of directors concerning the employment termination payment to its former CEO Alexander Provotorov in the amount of Rb 200.88m to be lawful. The arbitration court of Moscow's North-Western District annulled the previously issued rulings of the two lower instances, and fully considered and formally rejected the plaintiffs' claims; whereas the court of first instance had agreed that *Rostelecom's* board of directors had calculated the said 'golden parachute' 'on the basis of the highest premium without proper substantiation,¹ and on the basis of 'a fixed income unrelated to the previously paid salary'. By doing so, 'the board of directors significantly violated the rights of shareholders to governance and the receipt of dividends.'² Nevertheless, in the end the conflict was resolved, in early 2015, by the repayment of the money in question back to OJSC *Rostelecom*.³

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

The other norms of the 20-year-old presidential Executive Order that should be deemed to be null and void are as follows: the requirements to government representatives in those JSCs

¹ According to pure general logic, the payment of bonuses for future periods as part of a compensatory payment appears to be rather dubious, because the amount of a bonus depends on the company's future performance level.

² *Sud priznal zakonnyim 'zolotoi parashut' eks-glavy Rostelekoma Provotorova v 200 mln rub.* [The Court Recognized to Be Lawful the 'Golden Parachute' of *Rostelecom's* Ex-head Provotorov in the Amount of Rb 200m]. 29 October 2014, ITAR-TASS.

³ *Provotorov otstegnul parashut* [Provotorov Unlatched His Parachute], www.comnews.ru, 13 January 2015.

whose shares are consolidated in federal ownership, in the part relating to the content of contracts envisaging that government interests are to be represented by persons other than civil servants; and the procedure of coordinating draft decisions and the voting procedure with the relevant bodies of authority.¹

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

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

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

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

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

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

Further prospects with regard to the management of the entire state property complex should be viewed through the prism of the new Government Program (GP) *Federal Property Management*, approved by Decree of the RF Government of 15 April 2014, No 327, which has replaced the previous GP with the same title that was applied as a guideline for a period of approximately 14 months.² The reasons for such a replacement are not quite clear. At the official level the adoption of the new document is explained by the latest alterations to Article 179 of the RF Budget Code and the need to bring the existing normative base in conformity with Decree of

¹ it may be assumed that these provisions are no longer relevant due to the emergence of a robust normative-legal base regulating corporate governance issues in companies with state participation, which was gradually evolving in the course of the 2000s, after the elaboration of the 1999 Concept of State Property Management and Privatization in the Russian Federation.

² For a more detailed discussion of the 2013 government program, see Malginov G., Radygin A. Public sector and privatization (Section 6) // *Russian Economy in 2012. Trends and Outlooks (Issue 34)*. Moscow, IEP. 2013, pp. 433–475.

the RF Government of 17 October 2013, No 931, whereby numerous alterations were made to the Procedure for the Development, Implementation and Performance Assessment of the Government Programs of the Russian Federation, approved by the RF Government's Decree as early as the summer of 2010.

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

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

In the newly adopted Law on Federal Budget for the Period 2015–2017, budget expenditure, in addition the funding of all the other government programs, also includes budget allocations to the implementation of the Government Program *Federal Property Management*, approved by Decree of the RF Government of 15 April 2014, No 327 in the amount of Rb 27.9 bn in 2015, Rb 25.4bn in 2016, and Rb 26.2bn in 2017. Approximately 80% of these monies is to be spent on the subprogram *Management of State-owned Material Reserve*.

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

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

The most substantial reduction in the amount of allocations is planned for 2017 when, as a result of the delegation to the Federal Alcohol Market Regulation Service, in accordance with Decree of the RF Government of 22 May 2013, No 430 'On Reprocessing or Destruction of Ethyl Alcohol, Alcoholic Beverages and Alcohol-containing Products Withdrawn from Unlawful Turnover, and on Destruction Thereof in the Event of Their Confiscation' of the functions

of a state customer associated with the placement of government orders for services involving the transportation, storage, reprocessing and destruction of confiscated alcoholic beverages and alcohol-containing products, the amount of budget allocations to *Rosimushchestvo* planned for 2017 in the amount of Rb 50.0m will be redistributed in favor of the government program *Government Finance Management and Financial Market Regulation*.

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

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

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

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

6.1.6. The Budgetary Effect of Government Property Policy

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

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

¹ We do not consider here the federal budget revenues generated by payments for the use of natural resources (including biological water resources, revenues from the use of forest fund, and the extraction of mineral resources); compensation of losses incurred by agricultural production sector; revenues from the confiscation of agricultural land; revenues generated by financial operations (revenues from placement of budget funds (revenues

Table 8

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

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

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

from federal budget residuals and their investment; from 2006 onwards these include the revenues from the management of the RF Stabilization Fund (from 2009 onwards – the Reserve Fund and the National Welfare Fund); revenues from investment of monies accumulated in the course of trading RF stocks in the auction market); interest on budget-funded domestic loans, interest on government loans (monies received from the governments of foreign countries and foreign legal entities as interest payments on RF government loans; money transfers from legal entities (enterprises and organizations), RF subjects, municipal formations received as interest and guarantee payments on loans received by the RF from foreign governments and international financial organizations)); revenues from paid services rendered to the population or monies received by way of compensation of government expenditures; transfers of the RF Central Bank's profits; certain categories of payments from state and municipal enterprises and organizations (patent duties and registration fees for official registration of software, databases, integral microcircuit topologies; and other revenues which until 2004 were part of mandatory payments of state organizations (except revenues generated by the operations of Joint Venture *Vietsovetro* (from 2001) and transfers of part of profits generated by FSUEs (from 2002)); revenues from the implementation of product share agreements (PSA); revenues from the disposal of confiscated and other property earmarked as government revenue (including property transferred to state ownership in the procedure of inheritance or gift, or treasure trove appropriation); revenues generated by lotteries; other revenues from the use of property and rights in federal ownership (revenues from the execution of rights to the results of intellectual activity (R&D and technologies) intended for military, special or dual use; revenues generated by the execution of rights to the results of scientific and technological research held by the RF; revenues generated by the exploitation and use of property relating to motor roads, motor road levies imposed on transport vehicles registered in the territories of other states; execution of the Russian Federation's exclusive right to the results of intellectual activity in the field of geodesy and cartography; and other revenues from the use of property in the ownership of the Russian Federation); revenues generated by organizations from the permitted types of economic activity and earmarked for transfer to the federal budget; revenues from realization of government reserves of precious metals and precious stones.

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

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

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

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

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

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

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

ⁱ – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs: properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) organizations providing research-related services to the Russian Academy of Sciences and to sectoral academies of sciences, (iii) educational establishments, (iiii) healthcare institutions, (iiiii) federal postal service institutions of the Federal Communications Agency (*Rossvyaz*), (iiiii) state cultural and arts institutions, (iiiii) state archival institutions, and (iiiii) the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs¹ (for the period 2006–2009 - less revenues from the permitted types of economic activity and revenues from the use of federal properties situated outside of RF territory, which are received abroad and were not listed as a separate item in the ^b previous years);

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

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

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

(i) lease payments received for the lease of land plots in federal ownership, situated in public motor road precincts of federal importance (2012–2013.), and (ii) payments for the execution of agreements on the establishment of servitude with regard to land plots situated within public motor road precincts of federal importance for the purposes of construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, installation and exploitation of elevated advertising structures (only for 2012 and 2014);

¹ – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of autonomous and budget-funded institutions): properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) educational establishments, (iii) healthcare institutions, (iiii) state cultural and arts institutions, (iiiii) state archival institutions, (iiiii) other revenues from the lease of property held by right of operative management by federal treasury institutions, (iiiii) federal bodies of state authority, the Bank of Russia, and the managerial bodies of government off-budget funds (less revenues from the use of federal properties situated outside of RF territory, which are received abroad);

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

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

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

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

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

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

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

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

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

Table 9

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

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

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

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

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

^d – the amount of revenues generated by (1) sale of property in federal ownership, treated as an internal source of funding to cover federal budget deficit, (2) revenues generated by (i) sale of apartments, (ii) sale of state production and non-production assets, transport vehicles, other equipment and tangible assets, and (3) revenues generated by sale of intangible assets (ITA), treated as federal budget revenues;

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

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

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

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

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

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

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

as well as sale of military property, (iiii) sale of the products of recycled armaments, military technologies and ammunition, (3) revenues generated by sale of intangible assets (ITA); these are treated as federal budget revenues;

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

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

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

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

^p – revenues generated by sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA) and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue, and revenues from sale of timber confiscated from timber poachers), this figure includes revenues generated by (i) sale of apartments, (ii) sale of property held by FSUEs, (iii) sale of property held by right of operative management by federal institutions, (iiii) sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that are equated to military service, (iiiiii) sale of military-purpose products from the stores of federal bodies of executive authority within the framework of cooperation in the field of military technologies, (iiiiiii) revenues generated by sale of other properties in federal ownership; these are treated as federal budget revenues;

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

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

Industrial Recycling of Armaments and Military Equipment (2005–2010), (iiiiiii) revenues generated by sale of immovable property held by budget-funded and autonomous institutions (2014), (iiiiiii) revenues generated by sale other properties in federal ownership and revenues generated by sale of intangible assets (ITA); these are treated as federal budget revenues.

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

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

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

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

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

Table 10

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

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

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

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

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

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

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

Judging by the number of legal entities operating in the public sector of the economy, we can come to the obvious conclusion that it will continue to shrink. At the same time, the downward movement of the number of state institutions, unitary enterprises and economic societies with state participation is by no means the same as shrinkage of the public sector's share in the national economy, first of all due to the creation of vertically integrated structures - an activity that was also continued over the past year. Another contribution to the movement in this direction has been made by major one-time transactions like the reestablishment, by a court ruling, of government control over *Bashneft*.

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

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

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

Besides, the year 2014 saw a big step forward in organization and methodology, as an impressive body of applied normative legal acts was issued that address privatization policy is-

sues, as well as issues of performance improvement in the public sector of the national economy. However, their true value can be ascertained only in the course of practical implementation of the new government program, which will inevitably be influenced by the effects of worsening economic situation, dwindling investment activity, and hard budget constraints.

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