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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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6.2. Issues of RF State Treasury Property Management in Russia in 2014

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

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

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

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

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

Part One of the RF Civil Code (Article 214), which came into force in early 1995, defines federal property as property owned by the right of ownership by the Russian Federation. Property owned by the State (including federal property) is consolidated, for the purpose of possession, use and disposal of, in accordance with the RF Civil Code, to state-owned enterprises and institutions by right of economic jurisdiction (to federal state unitary enterprises (FSUEs)) or by right of

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

operative management (to treasury enterprises and institutions). The funds of a relevant budget and other state property that is not consolidated to state-owned enterprises and institutions shall constitute the state treasury of the Russian Federation or the treasury of a RF subject' (Article 215 of the RF CC).

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

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

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

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

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

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

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

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

to replace the Temporary Provision on the Property Register of the Russian Federation, introduced by the RF State Committee for State Property Management (*Goskomimushchestvo*) back in 1992.

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

By early 2003, a body of detailed information had already become available on the bulk of immovable property in federal ownership. At that time, it consisted of more than 1,150.5 thousand entities, mostly consolidated to unitary enterprises (approximately 73%). The role of the treasury as the user of federal property entities was almost negligible (less than 5% of all entities). All the other property entities were consolidated to state institutions.

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

Table 11

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

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

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

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

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

Table 12

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

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

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

If we look at the structure of federal property entities distributed by user category (*Table 12*), in all the user groups the dominant role belonged to entities of the category described as 'other',

but their relative shares varied, amounting for both the treasury and state institutions to approximately 60%. Second came residential premises (35.3%), while the shares of entities with the targeted function of providing social, cultural and household services to the population, and that of industrial and administrative entities were very small (2.5% and approximately 1.3% respectively).

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

Table 13

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

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

^a – residential buildings / premises;

^b – civil defense and protection facilities;

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

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

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

By comparison with the situation in early 2003, the total number of federal immovable property entities rose nearly 1.4 times (or by more than 20 thousand units). Among the categories of entities for which sufficient comparative data is available, we can note a significant growth in the number of entities used for civil defense purposes (which nearly doubled) and that of the entities used to provide social, cultural and household services to the population (by 86%). The growth in the number of residential buildings (or residential premises) was less impressive (by 17%), although

in absolute terms (more than 3 thousand units) it was higher than the number of entities used for civil defense purposes and that of entities used to provide social, cultural and household services to the population.

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

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

According to data presented in the Report of the Implementation of the Government Program *Federal Property Management* in 2013 released by the RF Ministry of Economic Development,² the structure of property types based on their functional use entered into the Federal Property Register as of 15 April 2014 was as follows:

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

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

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

The relative share of entities belonging to the federal treasury has remained approximately at the same level since early 2013, amounting by mid-2014 to 16.6% (vs. 11–12% in 2009–2010, although in 2008 that category accounted for 17.6% of all registered entities). Thus, in the period 2013–2014 the treasury became the second largest federal property right holder among all the categories thereof, getting slightly ahead of entities held by right of economic jurisdiction by enterprises.

Table 14

² Considered at the meeting of the Civic Council under the RF Ministry of Economic Development on 23 April 2014.

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

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

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

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

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

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

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

Table 15

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

Date	Aggregate number of property entities comprising RF state treasury, total		out of that number, by type					
			immovable property (less land plots)		land plots		movable property	
	units	%	units	%	units	%	units	%

1 January 2013	244,367	100.0	82,809	33.9	157,039	64.3	4,519	1.8
1 April 2013	251,941	100.0	83,724	33.25	163,351	64.8	4,866	1.95
1 October 2013	261,785	100.0	82,580	31.5	173,799	66.4	5,406	2.1
1 January 2014	266,352	100.0	81,918	30.8	178,709	67.1	5,725	2.1
1 April 2014	268,691	100.0	81,034	30.2	181,955	67.7	5,702	2.1
1 July 2014	273,056	100.0	81,536	29.9	185,792	68.0	5,728	2.1

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

As far as the size of the property complex comprising the treasury is concerned, there is no reason for viewing it as a serious burden imposed on the federal budget. This assumption is confirmed by the amount of budget allocations earmarked in the three-year federal budget for 2013–2015 for the upkeep and servicing of the RF treasury - approximately Rb 181.6m per annum.³

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

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

6.2.2. State Treasury Property in Privatization Programs ⁵

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

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

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

⁴ Law of Federal Budget Execution for the year 2013; Report on Federal Budget Execution as of 1 January 2015 (monthly report), www.roskazna.ru.

⁵ This paragraph is based on data taken from *Rosimushchestvo's* Report for 2013; see www.rosim.ru.

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

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

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

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

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

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

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

Rosimushchestvo issued its Directive of 13 April 2012, No 558-r 'On the Terms of Privatization of FSUE Central Moscow Hippodrome; effectuated the State registration of *Russian Hippodromes*

⁶ Report on federal property privatization in 2010.

JSC; and handled the issuance of its shares. Over the period 2011–2013, the relevant directives were issued with regard to a total of 441 property entities formerly held by FSI *GZK*, which were to be transferred into the charter capital of *Russian Hippodromes* JSC; as well as the directives concerning the terms of privatization of another 434 miscellaneous property entities, which accounts for 95% of all the property entities subject to relevant decisions concerning their transfer into the charter capital of integrated structures.

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

However, the final year of the privatization program produced somewhat better results in other planned directions, in spite of the reduction in the number of sold properties nearly by half. Thus, out of a total of 99 property entities offered for sale in 2013, 22 units were sold, while no bidding actually took place with regard to another 8 entities (and for 69 property entities the results of sales were to be reported in Q1 2014). For reference: in 2011, the results of sales were reported only with regard to 16 property entities, of which only 3 entities were sold for the symbolic sum of Rb 5.0m, and 13 entities were never put up for bidding. So, the privatization prospects of miscellaneous property entities belonging to 'other' category radically improved, as nearly 3/4 of those property entities that were offered for sale over the course of the relevant calendar year eventually found their buyers, whereas in 2011 this had happened to less than 1/5 of such properties.

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

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

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

According to preliminary data, in 2014, out of the total number of 48 immovable property entities offered for sale, 11 units were actually sold (with the transfer of proceeds to the budget in the amount of Rb 47.46m); and for another 17 property entities the results of sales were to be reported in Q1 2015.⁷

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

The transfer, by *Rosimushchestvo*, of its powers to privatize (or alienate) federal property to its territorial agencies has made it possible to simplify the relevant procedures and to shorten the pre-

⁷ 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.

sale preparation period, as well as to tighten the responsibility for the quality of these procedures. The transfer of privatization procedures to the exact locality where the relevant properties are situated can conduce to greater interest in property bidding on the part of regional investors, including small businesses and individual entrepreneurs.⁸

6.2.3. Treasury-owned Property in the Framework of the Government Program *Federal Property Management*⁹

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

The document's core theme was the definition of and consolidation to each federal property entity federal property its targeted function - the task that expected to be accomplished in 2018 also with regard to 30% of treasury-owned entities alongside other types of assets (or to 90% of such entities on condition that relevant additional resources should be made available). This goal was further supported by the plans for annual reduction, on 2012, of the total number of other miscellaneous property entities (beside land plots) comprising the treasury (less those entities that were to be received by the Treasury of the Russian Federation as a result of privatization of FSUEs over the period 2013–2018). So, by 2018, the number of treasury-owned property entities (with the exception of land plots) must shrink by 90%, while the total area of land plots held by the RF treasury and not involved in economic turnover – by 35% (on condition that additional resources be allocated, as well as financial backing provided for their subdivision and entry in the cadastre, in accordance with the expenditure items earmarked for covering the activity of the Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*)).

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

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

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

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

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

⁸ www.rosim.ru, 26 February 2015.

⁹ This paragraph is based on data taken from *Rosimushchestvo*'s Report for 2013; see www.rosim.ru.

- conduct of general building repairs and formalization of the necessary technical documentation required for the transfer of property entities to another tier of public ownership;
- recycling of treasury-owned property entities.

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

- categorization of treasury-owned property entities;
- development of roadmaps for each category;
- on the basis of available information on the number of entities in each category, technical assignments were prepared and approved for each territorial administration to minimize the number of treasury-owned property entities in accordance with their targeted functions;
- elaboration of the Treasury Information System (IS) on the basis of the a government (interdepartmental) portal, which will pool all information on the composition of the RF treasury;
- a proposal was submitted to the RF Ministry of Finance as to the allocation of additional funding to the treasury for the period 2014–2016.

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

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

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

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

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

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

- shortage of funding needed for recycling, repairs, upkeep and protection of property entities, and for formalization of relevant technical documentation;
- lengthy and complicated procedures involved in the alienation of property entities from the treasury;
- refusal of bodies of federal authority, RF subjects, or municipal formations to receive property entities from the treasury;
- imperfections of the existing normative legal base;
- concentration of all the relevant powers at the level of *Rosimushchestvo*'s central apparatus;¹⁰
- valuation of the immovable property entities being alienated without taking into account the value of relevant land plots.

¹⁰ The alterations to the Model Provision on a Territorial Agency of *Rosimushchestvo*, whereby the powers of its territorial administrations are to be expanded, came into force only as late as February 2014.

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

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

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

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

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

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

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

- preparation of the RF Government's Decree 'On the Management of Federal Property Entities Comprising the Treasury of the Russian Federation', designed to lay down the basic principles of regulating the management of this type of public assets (proposal submitted by *Rosimushchestvo* that the relevant draft document be developed);

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

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

In accordance with the law on federal budget execution for 2013, the amount of budget expenditure broken up by government department, and in particular that allocated to *Rosimushchestvo* (Item 'Upkeep and Servicing of RF Treasury') was Rb 233.9m (increased by the RF Ministry of Finance to Rb 242.5m as of the end of the year 2013).¹¹ This is actually higher than the amount of allocations to the other items in the framework of government property policy (e.g. 'Valuation of Immovable Property, Recognition of Rights and Regulation of Public Ownership Relations' (Rb 64.85m)) and 'Management of Federal Stakes (or Shares) in Economic Societies' (Rb 17.5m)), but much lower than the amount of expenditure allocated to 'Provision for and Conduct of Pre-sale Preparation and Sale of Federal Property, and reorganization of FSUEs (Rb 449.8m).

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

The allocated monies were distributed between *Rosimushchestvo*'s territorial administrations and spent on their most urgent needs, e.g. the introduction of safety measures in respect of hazard-prone entities (Altai Krai), the drawing-up of technical passports for hydro-technical facilities (Krasnodar Krai), recycling of explosives (the Republic of Sakha (Yakutia)).

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

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

¹¹ The increase (on the initial budget targets) of the amount of allocations to the upkeep and servicing of property entities comprising the RF treasury was made possible by the approval, by the RF Ministry of Finance, of the allocations to cover the costs associated with writs of execution (issued in the main in the framework of claims for recovery of unjust enrichment resulting from the storage of seagoing vessels).

to yield much better indices of ownership right formalization, and so to facilitate the involvement of these property entities in economic turnover.

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

As the methodology for determining the targeted function of federal property entities belonging to this category is still being developed,¹² the only real index for 2013 is that describing the reduction in the number of treasury property entities (less land plots) in comparison with 2012. It can be noted that the actually reported resulting figure of 0.8%, when set against the planned target of 1%, reveals a slight deviation by 0.2 pp. However, this value is far less than the deviation displayed by the downward movement of the indexes describing the number of FSUEs and the total area of land plots held by the treasury and not involved in economic turnover.

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

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

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

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

Table 16

The Structure of RF Treasury Property

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

A year later, in early 2014, there were the same top 4 categories, but their aggregate share had shrunk to approximately 60% due to the shrinkage of the shares of each of these groups:

¹² According to the State Program, in 2013, the targeted function should have been defined for 5% of property entities owned by the treasury.

administrative buildings and structures – from 20.9% to 19.4%, civil defense and protection facilities – approximately from 20.5% to 19.4%, housing fund entities – from 13.6% to 12%, housing and utilities entities – approximately from 10.7% to 9%. A similar trend could be observed in regard of transport infrastructure and communications facilities (decline from 7.2% to 6.7%), and social sphere facilities (decline from 3.1% to 2.7%).

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

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

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

Table 17

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

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

In absolute terms, the most impressive decline was demonstrated by housing fund entities, whose number was reduced by more than 1.5 thousand units. Slightly less was the decline in the number of housing and utilities entities, and that of administrative buildings and structures. The number of civil defense and protection facilities dwindled by more than 1 thousand units.

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

The number of administrative buildings and structures declined as a result of privatization (transfer into the ownership by third parties), and consolidation of buildings to institutions and enterprises; while that of civil defense and protection facilities declined as a result of inventory revision, which involved altering the status of some of the relevant facilities.¹³

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

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

¹³ By the year-end of 2014, according to data released by the RF Ministry of Emergency Situations, the investigation of the state of civil defense and protection facilities (CDPF) has been completed. *Rosimushchestvo* is waiting for the Civil Defense and Population Protection Department of the RF Ministry of Emergency Situations to release the relevant information concerning the needs of regions in such facilities, after which it will coordinate with the FR subjects the specific lists of CDPF. See www.rosim.ru, 29 December 2014.

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

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

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

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

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

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

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

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

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

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

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

management quality improved, only after the implementation of comprehensive preparatory measures.

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

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

The notion of a state treasury in the broad sense essentially means the management of a large part of the entire public property complex (less property consolidated to unitary enterprises and state institutions) and implies the existence of at least four components: 1) management of the budget process (with the sovereign funds); 2) management of the securities portfolio directly held by the State, including stakes in the capital of economic societies (treasury-owned stocks); 3) management of the land resources in public ownership (treasury-owned land); 4) management of all the other movable and immovable property (treasury-owned property).

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

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

In this connection, the following measures are suggested:

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

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

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

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

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

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

- the legislative initiative designed to simplify the procedures of sale of administrative buildings and structures, housing and utilities entities, social sphere facilities, unfinished construction entities, air and water transport facilities, and movable property entities (for the last two categories - without including them in the forecast plan (or program) of federal property privatization, on the basis of a single procedure synchronized with the sale of property transferred into public ownership);
- the proposal concerning the possibility of outsourcing the function of selecting properties suitable for sale in the category of administrative buildings and structures, social sphere facilities, unfinished construction entities, air and water transport facilities, and movable property (for the last two categories - for the purpose of electronic bidding), as well as the function of drawing up a complete inventory of civil defense and protection facilities);
- the proposal concerning the allocation of sufficient funding to cover the costs involved in housing fund repairs, with the subsequent transfer of the relevant entities to another tier of public ownership; recycling of oil and gas wells; the upkeep of hazard-prone production entities; the upkeep and storage of arrested vessels; the repair of cultural, ritual and religious facilities for their subsequent transfer to religious organizations; hydro-technical facilities (for the last category – with the drawing-up of their technical passports) for their subsequent transfer to another tier of public ownership;
- the proposal concerning the allocation of funding to the formalization of documents for the subsequent sale of social sphere facilities; the drawing-up of technical passports for cultural heritage properties (CHP) for the subsequent registration of RF ownership rights to them and their involvement into economic turnover; and the drawing-up of technical passports and registration of RF ownership rights to property entities and land plots belonging to the category of unfinished construction entities (for the last category, also a recycling procedure funded by monies attracted in the course of transfer, on preferential terms, of the land plots in which the entities to be recycled are situated is envisaged);
- the proposal concerning the attraction of off-budget investment in the framework of public-private partnerships (PPP) (concession agreements, investment contracts) involving transport infrastructure and communications entities, and unfinished construction entities;
- the transfer of movable property entities together with immovable property being transferred, or as a property complex (furniture, equipment).

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

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

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

Besides, it may be possible to reestablish the institution of normative prices, which were stipulated in privatization legislation over the period 2001–2010.¹⁴ The use of a normative price instead of the mechanism stipulated in the law on property valuation will have the following advantages: (1) the possibility to save the money that would otherwise be spent on the valuation procedure, (2) the possibility to apply the available estimates based on a property entity's residual or near-zero value as the initial price in the framework of an auction or tender procedure. The indispensable condition for the reintroduction of normative price, beside the entry of the relevant stipulation into existing legislation, must be the delineation of the sphere of its application and its testing in a pilot mode, especially if this service is to be outsourced.

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

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

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

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

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

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

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

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

¹⁴ The normative price was defined in the law on privatization (Article 12) as the minimum price determined in the procedure established by the government, at which the alienation of a given property entity can be possible.

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

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

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

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

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

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

Similarly to the previously adopted document, the new Government Program sets the task of determining for each federal property entity its targeted function, which must also be done with regard to entities held by the treasury (alongside other types of assets) in the volume of 30% in 2018.¹⁵ The numerical targets for reducing the volume of property comprising the RF treasury in 2012 are as follows: for land plots uninvolved in economic turnover – by 30% (in terms of area, less the land plots withdrawn from economic turnover and restricted in their turnover); for property entities (less land plots) – by 11% (less property entities restricted in their turnover). The intermediate targets for the implementation of the government program for the period until 2018 are the same as the corresponding targets set in the 2013 government program. The creation of a legal backing for the implementation of the government program in the part relating to property held by the treasury will involve the introduction of amendments to various existing legislative and normative acts with the purpose of creating adequate conditions for more proficient sale of the watercraft that have been confiscated or alienated after being intercepted with illegal catch of biological resources.

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

¹⁵ In this connection in the text of the program for 2018 it is stated that management goals must be determined with regard to each of the property entities comprising the state treasury of the Russian Federation.

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

* * *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- transfer of the properties subject to restrictions on its privatization, with due regard for targeted function, to relevant bodies of public authority with subsequent consolidation of these properties to their subordinated federal state institutions and enterprises;
- transfer of property to another tier of public authority alongside the improvement of the procedures of its normative regulation and only after the implementation of relevant preparatory measures;
- as for all the other propertya comprising the RF treasury, with no ban on its privatization, it is necessary to consider the feasibility of its alienation, or to choose the specific method and timing of its sale.

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

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

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

10. The newly adopted Government Program *Federal Property Management*, approved in April 2014 to replace the previous GP with the same title, the implementation of which had lasted for slightly longer than a year, on the whole reproduces the same targets, and this is also true for the

property comprising the RF treasury. The budget allocation targets set in the new 2014 GP are oriented to the then approved federal budget for 2014–2016. Meanwhile, the implementation of the Government Program will take place under new conditions associated with the imposition of **наличием** harder budget constraints, a fact that has also been reflected in the law on federal budget for 2015–2017.