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The review provides a detailed analysis of main trends in Russia's economy in 2008. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; 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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The State of Ownership Rights Relations, the Role of the Public Sector, and Privatization in Russia

5.2.1. The Magnitude of the Public Sector, Its Elements and Main Characteristics

Like in 2003-2006, in the second half 2008, the Russian government discussed approval of the next privatization program.

But like the previous analogous document approved in spring 2007, the 2009 Prognostic Plan (program) of privatization and main guidelines of privatization of the federal property for 2010 and 2011 contained data on the number of unitary enterprises in federal property (FUEs) and joint-stock companies with the RF's participation in their capital only as of the beginning of the calendar year¹. That is why there are no sufficient data to objectively judge dynamics of these particular components of the public sector.

Let us consider in a greater detail the changes that took place within main categories of economic agents that fall under the federal property.

Federal Public Unitary Enterprises

Table 1 below displays dynamics and the sectoral structure of FPUEs between 2004 and 2007. In 2007, their overall number tumbled at 12.6%, down to slightly over 5,700 units.

Table 1

Dynamics and Sectoral Structure of the Federal Public Unitary Enterprises between 2004 and 2008

Sector	As of June 1, 2004		As of June 1, 2005		As of June 1, 2006		As of June 1, 2007		As of June 1, 2008	
	units	%								
Non-production sphere	4,069	44.1	3,617	43.6	1,817	25.3	1,670	25.55	1,151	20.2
Industry and construction	3,012	33.0	2,773	33.45	2,376	33.1	2,207	33.8	1,744	30.5
Agriculture	1,237	13.4	1,111	13.4	913	12.7	826	12.65	618	10.8
Transport & communication	809	8.8	725	8.75	612	8.55	536	8.2	409	7.2
Forestry	65	0.7	67	0.8	53	0.75	49	0.75	37	0.65
Other sectors	–	–	–	–	1407	19.6	1245	19.05	1750	30.65
Total	9,222	100.0	8,293	100.0	7,178	100.0	6,533	100.0	5,709	100.0

¹ The 2003-06 prognostic plans (programs) of privatization approved in the end of the summer contained data on the number of FPUEs and JSCs with federal blocks in them as of June 1 of each year.

Source: the 2004 Federal Property Privatization Program (Prognostic plan (program) of privatization of federal property for 2004 and main guidelines of privatization of the federal property through 2006); the 2005 Prognostic plan (program) of privatization of federal property; the 2006 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2006 and 2008; the 2007 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2007 and 2009; the 2008 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2008 and 2010; the 2009 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2010 and 2011; the authors' calculations.

The main trend exhibited by changes in the sectoral structure of FPUEs in 2007 was a drastic rise in an absolute number of enterprises that fall under the group of “other sectors” not included in the basic classification. As of early-2008, they formed the biggest group vis-à-vis other sectors (some 30.7% of the overall number of FPUEs). A somewhat smaller number of enterprises were those from the industrial sector and construction industry (30.5%). The representation of the block of sectors of the non-industrial sphere and agriculture was fairly substantial (20.2% and 10.8%, respectively), while 7.2% of FPUEs were those of the transport and communication sectors and less than 1% of FPUEs represented forestry.

With the rise in the proportion of enterprises that fall under the “other sectors” group up to 30.7% as of early-2008 vs. slightly over 19% in the prior year, the proportional weight of all other sectors decreased. The most drastic fall was noted across sectors of the non-production sphere – their proportion in the aggregate structure of FPUEs tumbled at nearly 5.5p.p., while at 3.3p.p. plunged the proportion of industrial and construction enterprises.

Joint-stock companies whose stock are owned by the federal government

Let us consider in a greater detail the recent sectoral dynamic of the number of joint-stock companies whose stock is owned by the federal government:

Table 2

Dynamic and Sectoral Structure of Joint-Stock Companies Whose Stock Is Owned by the Federal Government or to Which the Special Right of “Golden Share” is Used in 2004–2008

Sector	As of June 1, 2004		As of June 1, 2005		As of June 1, 2006		As of Jan. 1, 2007		As of Jan. 1, 2007	
	units	%								
Non-production sphere	1,781	45,6	685	18,1	356	9,6	405	10,1	638	17,4
Industry and construction	1,710	43,8	2365	62,5	2,152	57,8	2,201	55,05	1,878*	51,1
Agriculture	356	9,1	459	12,1	396	10,6	353	8,9	397	10,8
Transport & communication	43	1,1	229	6,1	363	9,7	534	13,35	761	20,7
Forestry	15	0,4	45	1,2	99	2,7	88	2,2	–	–
Other sectors	–	–	–	–	358	9,6	416	10,4	–	–
Total	3905	100,0	3783	100,0	3724	100,0	3997	100,0	3674	100,0

*– including the industrial sector and construction per se (695 units, or 18.9%), the fuel and energy complex (597 units and 16.25%) and the military-industrial complex (586 units, or 15.95%)

Source: the 2004 Federal Property Privatization Program (Prognostic plan (program) of privatization of federal property for 2004 and main guidelines of privatization of the federal property through 2006); the 2005 Prognostic plan (program) of privatization of federal property; the 2006 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2006 and 2008; the 2007 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2007 and 2009; the 2008 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2008 and 2010; the 2009 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2010 and 2011; the authors' calculations.

As of early-2008, the sectoral structure of JSCs whose stock is in federal property was dominated by industrial and construction enterprises accounting for over 51% of the totality of such JSCs. But it should be noted that this aggregate figure comprises, in addition to industrial and construction enterprises *per se*, the JSCs that fall under the fuel and energy complex (FEC) and military-industrial complex (MIC) as well. Their consolidation in the same group with industrial and construction companies is necessitated by the need to ensure comparability with the data of the previous period when in the structure of the JSC with the federal stakes the TEC and MIC ones were separated from the group. By contrast, in early-2008, the data on the construction sector was combined with those on the industrial sector.

With that in mind, as of early-2008, the sectoral structure of JSCs whose stock is in the federal property displayed the most extensive representation of the agrarian sector (20.7%), followed by the industrial sector and construction (18.9%) and the block of non-production sectors (17.4%). As for TEC and MIC, which are represented by roughly the same number of enterprises (some 16% each), they appear slightly inferior to the non-production sphere, but well outpacing the transport and communication sector (10.8%).

Speaking of the 2007 shifts in the sectoral structure of JSCs whose stock is in the federal property, it is with a great deal of confidence that one can maintain it saw a notable rise of the specific weight of agriculture – at nearly 7.5 p.p. (from less than 13.4% as of early-2007 up to 20.7% as of early 2008). The proportion of transport and communication JSC posted a slight rise (at 2.p.p. – up to 10.8%). It is the specific weight of the bloc of sectors of the non-production sphere that posted the greatest growth rate (at 7.3 p.p. –up to 17.4%). But that said, as of early-2008, the sectoral structure of JSCs whose stock is in the federal property displays the absence of the group of “other sectors” that were not included in the basic classification, which allows assumption that they are attributed to sectors of the non-production sphere and, perhaps, FEC, and MIC. This complicates the task of a correct comparing of proportions of the non-production sphere, the industrial and construction sectors as of early 2007 with those of the respective period of 2008.

Equally important characteristic of JSCs with the government participation in the capital is their distribution depending on the size of the share the government owns in them (*Table 3*).

Table 3

Dynamics and Structure of Joint-Stock Companies in with Governmental Participation in the Capital in 1999–2008 (Including the Use of the Special Right “Golden Share”) Proceeding from the Size of the Governmental Stake

Date	Total		Up to 25%		between 25 and 50%		between 50 and 100 %		100 %		“Golden share”, units	
	units	%	units	%	units	%	units	%	units	%	Total, units	With-out stock, units
1999.	3,316/3,896 ^a	100	863	26.0	1601	48.3	470	14.2	382	11.5	580 ^b	
January 1, 2001	3,524 ^c	100	1746	49.55	1211	34.4	506	14.35	61	1.7
August, 2001	3,949 ^d	100	1843	46.7	1393	35.3	625	15.8	88	2.2	542 ^b	
January 1, 2002	4,407	100	2270	51.5	1401	31.8	646	14.65	90	2.05	750 ^b	
January 1, 2003	4,222 ^d	100	2152	51.0	1382	32.7	589	13.95	99	2.35	1076	118
June 1, 2003	4,205	100	2148	51.1	1339	31.8	600	14.3	118	2.8
October 1, 2003	4,035	100	2051	50.8	1308	32.4	552	13.7	124	3.1	640	148
January 1, 2004	3,704	100	1769	47.75	1235	33.35	540	14.6	160	4.3	591	251

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June 1, 2004	3,905	100	1950	49.9	1183	30.3	499	12.8	273	7.0
March 1 2005	4,075/ 3,791#	100	1697	44.8	1154	30.4	487	12.85	453	11.95	...	284
June 1, 2005	3,783/ 3,524##	100	1544	43.8	1093	31.0	474	13.5	413	11.7	...	259
June 1, 2006	3,724/ 3,481##	100	1063	30.5	885	25.4	397	11.4	1136	32.6	...	243
January 1, 2007	3,997/ 3,816##	100	932	24.4	814	21.3	368	9.6	1702	44.6	...	181
January 1, 2008	3,674	100	771	21.0	645	17.6	269	7.3	1989	54.1

^a – The 1999 Concept for state property management and privatization cites 3,896 economic companies (including 3,611 JSCs, 251 closed-end JSCs and 34 LLCs with the RF's participation in them). The figure of 3,316 units is a computed value resulting from summing up the number of stock (share) packages of different size cited in the Concept.

^b – the total number of JSCs with the use of the special right of “golden share”, without singling out of JSCs in which the government has no stock packages;

^c – joint-stock companies, less 48 shares and stock packages in overseas companies; there also are data evidencing that Russia owns 119 shares and stock packages in overseas companies with a book value of USD 1.4bn;

^d – data of a 2002 draft privatization program the RF Ministry of Federal Property submitted to the government. At the time, according to data of the Ministry's register, as of September 1, 2001, the federal government owned 4,308 stock packages in JSCs;

^e – only open-end JSCs, without regard to 118 open-end JSCs in which the government exercised the special right of “golden share” (with no stock in presence); stakes in 102 JSCs reassigned under FPUE Rosspirtprom's operative management, 75 closed-end joint-stock companies and shares in the authorized capital of LLCs transferred on the basis of Order by the RF Government of April 2, 2002, № 454-p «On termination of the government participation in authorized capital of credit institutions” or received in the order of succession, gift, or under other grounds;

3,791 units – the design number of JSCs whose stock is owned by RF, without regard to 284 JSCs in which the government exercised the special right of “golden share” (with no stock in presence). To ensure comparability with data on the preceding dates, the proportional weight of JSCs with this or that share in the capital was computed proceeding from this figure. For reference: as of January 1, 2005, the federal government owned stake in 3,767 JSCs, less the aforementioned ones in which the government exercised the special right of “golden share” (with no stock in presence) and shares in authorized capital of 24 LLCs reassigned to the Treasury on the basis of Order by the RF Government of April 2, 2002, № 454-p «On termination of the government participation in authorized capital of credit institutions”;

– the design number of JSCs whose stock is owned by RF, without regard to the JSCs in which the government exercised the special right of “golden share” (with no stock in presence). To ensure comparability with data on the preceding dates, the proportional weight of JSCs with this or that share in the capital was computed proceeding from this figure

Sources: www.mgi.ru; Rossiyskaya ekonomika v 2001 godu. Teendetsii i perspektivy (Issue 23). Vol. 2. M.: IEPP, March 2002. p. 62; Braverman A.A. O merakh po povysheniyu effektivnosti upravleniya gosudarstvennoy sobstvennostyu i kriteriyakh ee otsenki. // Vestnik Minimuschetstva Rossii. 2003. № 1. pp. 13–14; Predpriyatiya s gosudarstvennym uchastiyem. Institutsionalno-pravovye aspekty i ekonomicheskaya effektivnost. Series “Nauchnye doklady: nezavisimy ekonomicheskyy analiz” Enterprises with state participation. Institutional and legal aspects and economic efficiency № 155. M.: Moskovsky obschetsvenny nauchny fond; Assotsiatsiya issledovateley ekonomiki obschetsvennogo sektora, 2004. p. 47; the 2004 Federal Property Privatization Program (Prognostic plan (program) of privatization of federal property for 2004 and main guidelines of privatization of the federal property through 2006)// Vestnik Minimuschetstva Rossii. 2003. № 3. pp. 4–5. Klyuchevye problemy povysheniya effektivnosti upravleniya federalnoy sobstvennostyu i osnovnye napravleniya dividendnoy politiki Rossiyskoy Federatsii // Vestnik Minimuschetstva Rossii. 2003. № 4. p. 8; Andrianov V. Rossiya v globalnoy ekonomike // Obschestvo i ekonomika. 2003. № 11. p. 84; the 2005 Prognostic plan (program) of privatization of federal property; Materials for the meeting of the RF Government of March 17, 2005 “O merakh povysheniya effektivnosti upravleniya federalnoy sobstvennostyu”; the 2006 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2006 and 2008; the 2007 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2007 and 2009; the 2008 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2008 and 2010; the 2009 Prognostic plan (program) of privatization of federal property and main guidelines of privatization of the federal property between 2010 and 2011; the authors’ calculations.

Forestalling this analysis, it should be noted that by early-2008, the total number of these JSCs had accounted for 3,674 units, which is not just less than the analogous figure of 1999, but it forms the minimum one over the whole period of 1997-2007, except for 2001, when the respective data, perhaps, were not complete. If compared with early-2007, the number of JSCs whose stock is in the federal property fell by over 8% (or at 323 units)².

In 2007, there intensified a tendency that had been gaining momentum since mid-2005, namely, the growth in the proportion of packages that enabled the government, thanks to their size, to exercise a full-rate corporate control thanks to a drastic growth in the proportion of full packages (100% of all shares), which resulted from a real increase in the number of incorporated FPUEs.

While as of early 2007, the government could exercise a majority control or the full control in more than 54% of all the companies, while the share of those with the 100% state-owned capital was under 45%, as of January 1, 2008, all the mass of the companies with federal stakes was at 54% represented by JSCs with the 100% of state-owned block, while the aggregate specific weight of JSCs in which the government owned 50%-plus of capital exceeded 61%. Thus, for the first time since the late-1990s the state has become not just a majority, but the sole shareholder in more than a half of all the economic companies with its participation. Meanwhile, the absolute quantity and shares of minority (up to 25% of capital), blocking (between 25 and 50% of capital) and majority (over 50%, but under 100% of capital) stakes in the overall structure of the federally-owned stock packages plummeted in 2007, with minority and blocking packages being the first to suffer at most because of this development.

² Regrettably, there are no data available on the number of JSCs where by early 2008 the government used its special right for participation in management – the golden share.

Another source of data on the quantitative composition of the public sector is the Rosstat's monitoring³. Its data suggests the following quantitative dynamic of economic agents noted between 2007 and the first half 2008 (*Table 4*).

Table 4

The Number of Organizations of the Public Sector of the Economy Accounted by Territorial Bodies of the State Property Agency and Bodies Controlling the Public Property of the Subjects of RF in 2007-2008

Date	Total ^a	FPUEs, including treasury enterprises	Public institutions	Economic companies in whose capital 50%-plus of stock (shares) are owned by	
				The government	Economic companies that fall under the public sector of the economy
As of January 1, 2007	82,410	12,735	64,295	3,920	1,439
As of July 1, 2007	81,076	11,351	64,159	4,111	1,440
As of January 1, 2008	80,570	10,598	64,440	4,111	1,410
As of July 1, 2008	77,461 ^b	9,864	62,571	3,930	1,089

^aincluding organizations whose founding documents that have passed the state registration fail to stipulate concrete kinds of operations, as a result of which the total number of organizations is in excess of that of PUEs, institutions and economic companies, but without regard to joint-stock companies whose 50%-plus stock (shares) is/are jointly owned by the government and a foreign proprietor.

^bRecord of the federal property is exercised in compliance with Resolution by the RF Government of July 16, 2007, № 447 "On improving the record of the federal property".

Source: O razvitiu gosudarstvennogo sektora ekonomiki Rossiyskoy Federatsii v 2006 godu. M. Rosstat, 2007, p.120; O razvitiu gosudarstvennogo sektora ekonomiki Rossiyskoy Federatsii v I gjlygodii 2007 goda. M. Rosstat, 2007, p.111; O razvitiu gosudarstvennogo sektora ekonomiki Rossiyskoy Federatsii v 2007 godu. M. Rosstat, 2008, p.123; O razvitiu gosudarstvennogo sektora ekonomiki Rossiyskoy Federatsii v I gjlygodii 2008 goda. M. Rosstat, 2007, p.87

Overall, in 2007, the number of organizations of the public sector of the economy plunged by 2.2%, to be followed by another 3.9% drop in the first half 2008.

The number of public unitary enterprises was shrinking at an advancing pace: by 16.8% in 2007, by 6.9% - over the period between January and June 2008 (overall, at 22.5% over a year and a half). Considering the dynamics over the said period, the number of economic companies in whose authorized capital over 50% of stock (shares) is/are owned by the economic companies that fall under the public sector of the economy experienced a drop greater than PUEs' (at 24.3%); however, by contrast with the first group, this contraction was noted chiefly during over the first half of 2008 (at nearly 23%).

The other subsectors of the public sector displayed ambiguous dynamics. Thus, the number of public institutions posted some growth in 2007 (at 0.2%), but dropped in the first half 2008 at 2.9%. A similar pattern was characteristic of the dynamic of the number of economic companies whose 50%-plus stock (shares) is/are owned by the state – it grew by some 5% in 2007 and fell between January and June 2008 by roughly the same rate, thus bouncing back to the early-2007 level.

³ On the basis of Resolution by the RF Government of January 4, 1999, № 1, its composition comprises the following economic agents of the federal and regional levels: (1) public unitary enterprises with the right for economic conduct and operative management (treasury); (2) public enterprises; (3) economic companies in the authorized capital of which over 50% of stock (shares) is in the state property; (4) economic companies in whose authorized capital over 50% of stock (shares) is owned by economic companies that fall under the public sector

The structure and composition of the federal assets cannot be reduced to FPUEs and federal stock packages, of course.

According to Rosimuschestvo, as of mid-January 2009, the register of the federal property comprised 1,239.788 immovable and movable property objects (including over 1,100.000 objects owned by possessors of rights by the respective special property and some 107,000 treasury objects). The register also comprises over 3,500 stock packages belonging to the RF, and nearly 67,000 federally-owned land lots.

Rosimuschestvo has practically completed the inventory of assets that form the RF's state treasury. The agency continued to work with possessors of rights (FPUEs, federal public institutions, other entities) for the purpose of a complete and timely submission for filing a respective record in the register of the federal property fixed with them under respective special property terms. At this point, it should also be noted that Rosimuschestvo conducts the work on compiling the register and organizing the procedure of record maintenance of the federal property on the basis of Resolution by the RF Government of July 16, 2007, № 447 "On improving the record of the federal property". The document specifies the sequence of the record-keeping procedure. From the moment of its enactment (September 6, 2007), practically all the legal and other acts pertaining to matters of keeping record on, and conducting the register of the federal property, as per the said Resolution⁴, have been passed.

5.2.2. Medium-Term Privatization Plans

Back to the approved by Resolution by the RF Government of September 1, 2009, №1272-p Prognostic plan (program) of privatization of the federal property for 2009 and main guidelines of privatization of the federal property for 2010 and 2011, it should be noted that the document follows the pattern of analogous documents developed over recent years. It once again proposes to privatize and sell in 2009-2011 all the federal public unitary enterprises that fail to exercise the state functions of the Russian Federation, as well as to do so with stock packages of the joint-stock companies created in the course of incorporation of FPUEs, except for JSCs included in the list of strategic joint-stock companies or those contributing to formation of integrated structures.

In 2009, it is envisaged to privatize and offer for sale the following FPUEs of the agro-industrial complex, road complex, geology and communication:

- stock packages whose size does not exceed 50% of the authorized capital of respective joint-stock companies, except for JSCs included in the list of strategic joint-stock companies or participating in formation of integrated structures, as well as stakes the sale of which will be carried out proceeding from needs in formation of the revenue part of the 2009 federal budget and for the period through 2011, as per the perspective financial plan;
- stakes in JSCs of the fuel and energy complex, construction complex, agro-industrial complex, chemical, petrochemical and polygraph industry, geology, water transport, and joint-stock companies in the machine-engineering sector (except for strategic joint-stock companies);
- assets of the RF treasury, that do not provide for public functions.

In all, approved by the RF Government, the 2009 Prognostic privatization plan comprises 235 FPUEs and stakes in 291 JSCs, as well as 3 shares in LLCs and 18 objects of other

⁴ www.rosim.ru; 27.01.2009.

kinds of property. Sales of these assets should secure Rb. 12bn in revenues to the federal budget.

Notably, by contrast to analogous documents of the two past years, the current privatization program lacks any reference to the largest federal property objects due to be privatized – the priority is to continue between 2009-2011 works on shaping integrated structures in strategic sectors on the basis of joint-stock companies whose stock is owned by the federal government.

In conjunction with this, the Federal State Property Management Agency was assigned with yet more ambitious tasks to exercise managerial functions within the limits of their powers with regard to such integrated structures as public corporations Rostekhnologii, Roosatombank, JSCs “United aircraft-building corporation”, “United ship-building corporation”, etc. (21 structure in total).

The Government considered the RF Ministry for Economic Development and Trade’s plans to extend the life-span of privatization plans from 1 to 3 years. Such a modification synchronizes it with a new time horizon of budgetary planning and may serve as an additional catalyst of the privatization process.

As shown by the recent years’ practices, upon promulgation of the 2001 Act on privatization, the current procedures allow one to privatize during a year not more than 1/3 of initially included in the list objects, while privatization of the remaining part of objects required repetition of the procedures the next year. Such a situation enabled management of the privatized assets (primarily unitary enterprises) to indirectly influence the progress with their privatization by delaying conciliatory procedures, etc. Besides, even if the management had no such intents towards large objects, completion of privatization procedures could take a longer time, due to a greater degree of requirements to the pre-privatization preparation (picking a favorable moment from the perspective of the situation on the stock market, the need in creation of consortiums of investment banks, accumulation of sizeable amounts of funds to take part in privatization)⁵.

At this point, as a reminder, from the perspective of formal declarations, since 2003 the Russian privatization has got a three-year time horizon. The respective document (the 2004 Prognostic plan (program) of privatization and main guidelines for privatization of the federal property through 2006) was approved by Resolution of the RF Government of August 15, 2003, № 1165-p. The document was accompanied with declarations of the privatization program’s three-year time horizon (2004-2006), with the ultimate objective being completion of privatization of the assets that are not pertaining to execution of the government function by 2006 and completion of the privatization process as a whole by 2008.

The government thenceforth every year approved ample prognostic plans (programs) of privatization of federal assets for the next year with main guidelines for the next two years⁶. These plans and guidelines comprised hundreds of FPUes and stock packages (shares) in economic companies of different sectoral attribution; in reality, however, the documents contained a list of privatized assets only for a year ahead.

So far the effective Act on privatization has borne a provision that implies an annual approval of the prognostic plan (program) of privatization of federal assets, which is why

⁵ Netroba P., Butrin D. Privatizatsii nakidyvayut srok. In: Kommersant, №145/P (3962) of 18.08.2008.

⁶ The sole exception was the 2005 Prognostic plan (program) of privatization, whose title (but not the content) lacked a reference to the next years.

transition to the three-year planning will require introduction of modifications into the Act, while a practical transition to the three-year privatization plan is hardly achievable earlier than in 2010.

Perhaps by that time there have taken shape certain prerequisites for introducing into the privatization process (not excluding a public placement of new stock of an additional issuance) of large objects, which by their importance are comparable with those privatized prior to 2005. It is absolutely evident that as of today, this is constrained by the world financial crisis and a clear solidification of the institution of public corporations, to which assets, many of which are potential objects for privatization, are assigned as a property contribution.

As concerns the 2008 privatization, there have been no notable developments, as it concerned objects of no particular interest to the state.

To judge as to what extent assets formed specific objects of privatization deals, one needs to study into a scarce information about outcomes of such deals published by Rosimuschestvo. Thus, the 100% stake in JSC “Samara Hyppodrom” was sold for Rb. 370,318.000, while the 100% of stock in “Kuzbassgrazhdanproekt”- for Rb. 113,364.000. Against this background the sale of a 25.12% stock in JSC “Rosterminalugol (Leningrad oblast) for Rb. 573m in November 2008 seems a more impressive outcome. Interestingly, in all these deals, the excess of the selling price over the initial one was not more than 2%⁷.

A few amendments were introduced in the privatization law last year. There were not fundamental, though, and of all the amendments worth noting is the one to Art. 3. This particular amendment identifies the sphere of effect of the Act with the provision that particularities of small- and medium-sized businesses participation in privatization of leased public or municipal immovable property can be set by the federal law. If promoted, the provision may have certain significance for stimulation of small-and medium-sized businesses’ development beyond the framework of the privatization law.

In conclusion, it is worth mentioning that the spring of 2008 saw the end of a long-lasting heated conflict between two federal agencies involved in regulation of property relations. In compliance with presidential Decree of May 12, 2008, №724, the Federal Agency for Federal Property Management (FAFPM) was transformed into the Federal Public Property Management Agency. It was delegated the mandate of the specialized public institution under the RF Government “The Russian Federal Property Fund” (RFPPF) on organization of sales of privatized public assets, sales of assets arrested as per rulings by the court of law or acts of bodies that were granted the powers to make decisions regarding full recourse as well as the functions on sales of confiscated, movable ownerless, withdrawn, and other assets taken to the state in compliance with the RF law. The liquidation in late-June 2008 of RFPPF, whose main function since the moment of its creation in 1991 had been conduct of privatization, seems a fairly symbolical move, as long as evolution of property relations in the country is concerned.⁸

⁷ www.rosim.ru

⁸ It does not necessarily mean a full stagnation of the privatization process, though. A serious conflict between the RFPPF and FAFPM that was at pains to limit the Fund’s independence was one of the reasons behind the slowdown of privatization post-2004.

5.2.3. The Impact of the State Command Role on the Structural Policy in Individual Sectors and Problems of Solidification of Its Position in the Economy

The most notable developments in this area were the ultimate formation of a new structure of the electricity sector and a continuous influence exerted by public corporations founded in 2007.

The new structure of the electricity sector has resulted from numerous decisions taken in 2004-2007 with respect to the sector restructuring on the basis of reforming RAO UES Russia. At the time, the holding's regional electricity companies were undergoing a vigorous reorganization through separation or encapsulation, with establishment of new legal entities with different profiles, primarily wholesale generating companies (*aka* OGKs) and territorial ones (TGKs), and their servicing and other structures.

As a reminder, the first stage of the reorganization, in the frame of which JSC OGK-5 and JSC TGK-5 were separated from RAO, was completed on September 3, 2007. Resulting from the first reorganization, in addition to their stakes in JSC RAO UES Russia, the shareholders in RAO UES were given stock in JSC OGK-5 and JSC TGK-5 in proportion to their share in the energy holding's authorized capital. Meanwhile, the number of their respective stock in RAO UES Russia remained unchanged. Upon completion of the first stage of the reorganization the government's share in the authorized capital of JSC OGK-5 made up 26.43% and that in the authorized capital of JSC TGK-5 – 25.09%.

At their meeting on October 26, 2007, the RAO UES Russia's shareholders supported the company's final reorganization. Between December 2007 and January 2008 the formation of a target structure of all thermal OGKs and TGKs, the first stage of consolidation of JSC GydroOGK, and the process of selection of network companies were completed. As many as 56 main network companies were established on the basis of the reorganized energo-JSCs⁹.

In the course of the second stage that ended on July 1, 2008, the structural transformation of the energy holding's assets was over and all the companies of the sector's target structure (FSKs, OGKs, TGKs, etc.) separated from RAO UES Russia and the head company JSC RAO UES Russia discontinued their operations.

All the shareholders were given stock of the following 23 electricity and energy companies:

- JSC Gosudarstvenny holding and JSC Minoritarny holding FSK UES with a simultaneous joinder to JSC FSK UES;
- JSC Gosudarstvenny holding JSC Gosudarstvenny holding GydroOGK and Minoritarny holding GydroOGK with a simultaneous joinder to JSC Rusgydro;
- JSC OGK-1 Holding with a simultaneous joinder to JSC OGK-1;
- JSC OGK-2 Holding with a simultaneous joinder to JSC OGK-2;
- JSC OGK-3 Holding with a simultaneous joinder to JSC OGK-3;
- JSC OGK-4 Holding with a simultaneous joinder to JSC OGK-4;
- JSC OGK-6 Holding with a simultaneous joinder to JSC OGK-6;
- JSC TGK-1 Holding with a simultaneous joinder to JSC TGK-1;
- JSC TGK-2 Holding with a simultaneous joinder to JSC TGK-2;

⁹ www.rao-ees.ru

- JSC Mosenergo Holding with a simultaneous joinder to JSC Mosenergo;
- JSC TGK-4 Holding with a simultaneous joinder to JSC TGK-4;
- JSC TGK-2 Holding with a simultaneous joinder to JSC TGK-2;
- JSC TGK-6 Holding with a simultaneous joinder to JSC TGK-6;
- JSC Volzhskaya TGK Holding with a simultaneous joinder to JSC Volzhskaya TGK;
- JSC YYUGK TGK-8 with a simultaneous joinder to JSC JSC YYUGK TGK-8;
- JSC TGK-9 Holding with a simultaneous joinder to JSC TGK-9;
- JSC TGK-10 Holding with a simultaneous joinder to JSC TGK-10;
- JSC TGK-11 Holding with a simultaneous joinder to JSC TGK-11;
- JSC Kuzbassenergo Holding with a simultaneous joinder to JSC Kuzbassenergo;
- JSC Eniseyskaya TGK Holding with a simultaneous joinder to JSC Eniseyskaya TGK (TGK-13);
- JSC TGK-14 Holding with a simultaneous joinder to JSC TGK-14;
- JSC INTER RAO UES Holding with a simultaneous joinder to JSC INTER RAO UES.

The public holdings (JSC Gosudarstvenny holding¹⁰ and JSC Gosudarstvenny holding GydroOGK¹¹) were intermediate companies. Their separation was carried out along with a simultaneous joinder to JSC FSK UES and JSC GydroOGK, respectively. That secured the government's direct participation in the companies' capital. Because of the transfer of the government share in OGKs and TGKs onto the balance sheet of JSC FSK UES and JSC GydroOGK the government increased its share in the Federal Network Company to a level not less than 75%+ 1 share and that in JSC GydroOGK – to a level of not less than 50%+ 1 share.

All the other holdings (except for JSC Minority holding FSK UES¹², JSC Minority holding GydroOGK¹³ and JSC IINTER RAO UES Holding¹⁴), i.e 5 minority OGK holdings and 13 minority TGK holdings, owned “minority” stakes in just a sole company (all the heating OGK, except for the separated in the course of the first stage OGK-5 and all the TGKs, except for the separated in the course of the first stage TGK-5).

All the stock in “Minority holding FSK”, “Minority holding GydroOGK” and minority holdings TGK/OGK were distributed exclusively in favor of the JSC RAO UES Russia's minority stakeholders, except for the special shareholders (JSC CTsentrenergoholding, JSC Sibir

¹⁰ The following stock was to be transferred to the balance sheet of the JSC Gosudarstvenny holding: from the “governmental” stake in JSC FSK UES (at the amount proportional to the share of participation by RF in the RAO UES Russia's authorized capital as of the moment of making the decision on its reorganization), main network companies, heating generating companies (OGK and TGK) or assets acquired resulting from sales of these or those “state-owned” stock packages in OGK/TGK (a fraction of stock packages of companies that fall at the share of the RF's participation in the RAO UES Russia's authorized capital

¹¹ The following stock was transferred to the balance sheet of JSC Gosudarstvenny holding GydroOGK: stock of JSCs GydroOGK (in a volume of the proportion of the RF's participation RF in the RAO UES Russia's authorized capital as of the moment of making the decision on its reorganization) and stock from the “state-owned” stock packages in heating OGK and TGK or assets acquired from sales of the shares in these OGK/TGK (a fraction from the 52% of stock owned by JSC RAO UES Russia).

¹² JSC Minority Holding FSK UES owned a “minority” fraction of stock of FSKs (48% of stock owned by JSC RAO UES Russia.

¹³ JSC Minority Holding GydroOGK owned a “minority” fraction of stock of GydroOGKs.

¹⁴ Inter RAO UES Holding was an owner of a stake in JSC Inter RAO UES and assets subjected to transfer to pay for the JSC Inter RAO UES's authorized capital.

Energoholding and JSC Intergeneratsia¹⁵). The separation of the above minority holdings was also carried out with their simultaneous joinder to a respective target company. Such a division of assets enabled one to fix shares of the RAO UES Russia's assets due to be distributed in favor of the state and minority shareholders of the former energy monopolist, and to make individual decisions regarding managing the "governmental" and "minority" shares of the JSC RAO UES Russia's assets.

In addition, as ruled by an early general shareholder meeting of October 26, 2007, the two newly created companies of the target structure of the energy sector, JSC "Holding MRSK¹⁶" and JSC "RAO Energeticheskiye systemy Vostoka¹⁷", as well as holding companies - special shareholders that are fully owned by JSC RAO UES Russia's concrete minority shareholders (JSC Tsentrenergoholding, JSC Sibenergoholding and JSC Intergeneratsia) were separated.

JSC CO UES (the System Operator) was not separated in the course of the reorganization, and 100% of its stock were be assigned to the state. The System Operator will redeem and paid for a RAO UES Russia's stock package in this company, hence, the government will consequently become a sole proprietor of JSC COUES. Upon completion of separation of all the newly created companies, JSC RAO UES Russia, on whose balance sheet, in accordance to the company's separation balance sheet there remained a fraction of assets that did not attribute to the target companies' technological operations, was to join JSC FSK UES. Thus, the RAO UES Russia's shareholders received a share of participation in JSC FSK UES not only as shareholders of the separated JSC Gosudarstvenny holding or JSC Minority Holding FSK UES, but in their capacity of a shareholder of JSC RAO UES Russia.

So, the structural transformation has resulted in the government being an owner of:

- a 75%-plus stake in the Federal Network Company (with account of contribution with the federal budget funds and a part of the "public" portion of stake in OGK/TGK);
- a 75%-plus stake in the System Operator (with account of contribution with the federal budget funds);
- a 50%-plus stake in JSC GydroOGK (with account of contribution with the federal budget funds and a part of the "public" portion of stake in OGK/TGK);
- a 50%-plus stake in JSC Inter RAO UES;
- a 52%-plus stake in JSC Holding MSRK and JSC RAO Energeticheskiye Systemy Vostoka.

With account of a possible sale of the government stock packages in heat OGKs and TGKs, the government may fully abandon its participation in the heat generating companies.

The minority shareholders in turn have become owners of:

- up to 100% of heating generating companies;
- under 25% of stock of JSC FSK UES;
- under 50% of stock of JSC GydroOGK and JSC Inter RAO UES;

¹⁵ Three special holdings separated in the course of the reorganization according to the additions to the scheme of reorganization approved by the Board of Directors of JSC RAO UES Russia on April 27, 2007. Shares of each of them were distributed only to a concrete shareholder of RAO UES Russia, while on their balance sheets they received shares in heating generation companies, JSC FSK UES, JSC GydroOGK, and other assets that had fallen under the given shareholder's stock in the JSC RAO UES Russia's authorized capital.

¹⁶ JSC Holding MSRK is an owner of stakes in MSRK and a number of distributive network companies.

¹⁷ Holding JSC RAO Energeticheskiye Systemy Vostoka is an owner of stakes in JSC Dalnevostochnaya energeticheskaya kompaniya and in isolated electricity systems.

- some 48% of stock of JSC Holding MSRK and JSC RAO Energeticheskoye Systemy Vostoka.

The distribution of shares of the companies separated in the course of reorganization of JSC RAO UES Russia between its shareholders had been completed by July 23, 2008. The securities were placed by registrars on the day of the state registration of the separated companies, i.e. on July 1, 2008, while nominal holders of different levels placed the securities between July 1 and 14, 2008. All stock was inducted to the shareholders' individual accounts.

The liquidation of the electricity monopolist was preceded by its redemption by January 9, 2008, of the stock rendered by the RA UES Russia's shareholders that enjoyed the right to take part in the early meeting on matters of the final reorganization of the company on October 26, 2007 and voted against that decision or failed to take part in the voting¹⁸.

So, the electricity sector saw the completion of a colossal structural transformation. It has resulted in decentralization of the sector with activation of the market competition mechanism and launch of the mechanism of attraction of private investments. But it should be noted that companies with a government's share in their capital (such as Gazprom and Rosneft) have become large shareholders of many OGKs and TGKs. By the 2007 results, the aggregate proportion of electricity generating companies owned by JSC Gazprom and JSC SUEK, with which Gazprom was going to merge its generating assets, accounted for some 20%.

In 2007, the transition to a sweeping creation of public corporations (PC) has become one of directions of the government's new policy in the property area.

From the formal perspective, it did not continued in 2008 – there was no passage of special federal acts on establishment of new economic agents of this organizational and legal form¹⁹, albeit a detailed discussion was initiated on variants of creation of PCs in the road maintenance and grain procurement sectors.

Meanwhile, some PCs founded in 2007 have succeeded in expending notably in their sphere of interests. This particularly concerns PC Rostekhnologii which has formed a nucleus of an emerging holding of the clearly conglomeration type.

As a reminder, in compliance with presidential Decree of November 26, 2007, №1577, the corporation was given the 100% stake of the transformed into JSC Rosoboronexport (ROE), whose structure enveloped a great number of companies from various industries (a helicopter-building holding; AvtoVAZ, VSMPO-Avisma, Motovilikhinskiye zavody, Russpetsstal, to name a few). In addition to ROE, since early-2008, PC Rostekhnologii has begun vigorously lobbying a reassigning to it by the government of numerous assets in other sectors as a property contribution. The move was often countered by the federal and regional authorities and other influential companies²⁰.

According to the final variant stipulated in presidential Decree of July 10, 2008, №1052, Rostekhnologii should be assigned 183 FPUEs. These structures should be subject to

¹⁸ www.rao-ees.ru

¹⁹ Created on the basis of Federal Act of July 24, 2008, №161-FZ, the Federal Fund for Assistance to Development of House Building formally has the organizational and legal form of foundation, while de-facto appears fairly close to already emerged public corporations. They all are non-for-the-profit organizations.

²⁰ Such a situation was noted, for example, in conjunction with the PC Rostekhnologii's claims for inclusion in its structure of Nauchno-proizvodstvennaya korporatsia Uralvagonzavod (the former FPUE Proizvodstvennoye obyedineniye Uralvagonzavod named after F.E. Dzerzhinsky) located in the town of Nizhny Tagil, Sverdlovsk oblast. In autumn 2007, the company was transformed into JSC, with its 100% stake fixed in the federal property. The company was regarded as a head one for the formation of a panzer holding.

incorporation with the subsequent transfer to the newly created JSC of all their equity, as well as 246 shares in various economic companies (overall, it was initially planned to assign to the company over 480 enterprises), including the state-owned share in Obyedinennaya Promyshlennaya Korporatsia after an increase of its authorized capital with the payment by the state for additionally placed equity with stock packages in 12 companies and Nauchno-porizvodstvenny predpriyatiye "Motor" (Ufa), which is to be transformed from FPUE into JSC. Meanwhile, it is provided for a founding by Oboronprom of the daughter JSC Upravlyauyshaya kompaniya "Obyedinennaya dvigatelestroitel'nayay korporatsia" with its authorized capital to be paid with state-owned stock packages with the prospect for an increase of the share in these companies up to the size of a controlling stake.

Despite the defense enterprises assets assigned to the public corporation Rostekhnologii clearly dominated over other assets, it should be noted that a part of the latter falls under civil sectors, including several air companies (Rossiya, Kavminvodyavia, Orneburgskiy avialinii, Saratovskiy avialinii), foreign trade companies, and the RF's shares located overseas (in Russian-Mongolian LLCs Erdenet and Mongolrosvetmet (49% in each) and in the Russian-Vietnamese corporation Visorustekhs – 32%).

Shortly before that the federal stakes in air companies Domodeovskiy avialinii, Krasnoyarskiy avialinii, and Samara were assigned to Rostekhnologii. A year before that, they were picked for contributing with them to the authorized capital of a new holding, Air Union. The intended for 2007 consolidation of public and private assets of 5 air companies of the alliance should have resulted in the rise of the third biggest air carrier in the country, Airunion²¹. Interestingly, by contrast to most recently created holdings, one admitted a possibility for the government to own in the newly created structure a stake less than the controlling one (45%). Such a structure of the company's capital has borne a greater risk of conflicts between the state and other shareholders, which manifested themselves yet in early-2008 - in the failure to convene the founding meeting caused by shareholders' different appraisals of the assets they were going to contribute with to the new company.

An intermediate final became a sudden deep crisis that battered the air companies of the alliance between late-August and early-September 2008. It took the form of a sudden rise of huge debts to their counterparts, lawsuits and the danger of bankruptcy, delays with, and cancellation of flights, suspension of tickets sales, etc. At that juncture, it was announced that PC Rostekhnologii, together with the Moscow city government²² and that of Krasnoyarsk krai, were to found a new air carrier, the structure of which had not been set as of that moment. Meanwhile, already in early-2009 the presidential Decree confirmed assigning to Rostekhnologii the federal stakes in Domodeovskiy avialinii (50.04%), Krasnoyarskiy avialinii (51%), and Samara (46.5%), complemented by those in Vladivostok Avia (52.17%), Dalavia and Sakhalinskiy aviatrassy (100% in each).

Yet another government's contribution in the form of assets to Rostekhnologii should become all the equity of JSC Transportno-vystavochny kompleks "Rossiya" established on the basis of assets of 2 FPUEs in the town of Zhukovsky (Moscow oblast). Upon the exercise of measures of state support for the sake of preclusion from their bankruptcy, these FPUEs were subject to their transformation into a JSC with the subsequent introduction of 100% of

²¹ It was supposed that the new company will inherit in the Russian spelling the name of the alliance (Air Union), in which several independent air carriers had earlier participated.

²² The city owns control blocks of Atlant-Soyuz air carrier that has assumed the Air Union's operations and those of Vnukovo airport wherein it is based.

their equity into the authorized capital of Obyedinennaya aviastroitel'naya korporatsia in an order of payment for additional equity it was to place due to an increase of its authorized capital.

The other public corporation keen to grow into a huge structure to manage public assets across the sector has become Rosatom. In 2008, the corporation's structure has become visible. The government's equity contribution to Rosatom is formed by the 100% package in JSC Atomny energopromyshlenny complex (AEP), stock packages in yet another 2 JSC (research institutions) (50% minus 1 share in each). In addition, the government should contribute with all the equity of JSC Inter RAO UES due to be assigned to the government as a result of the reorganization of RAO UES Russia. The Inter RAO UES's authorized capital should increase thanks to introducing in it all the federally-owned stakes in the two power plants - Kaliningrad TETS-2 and Sangtudinsky GES-1 in Tajikistan (which is built with Russia's participation, with funds allocated out of the federal budget).

In addition, PC Rosatom's mandate includes the power to exercise on the government's behalf the powers of a proprietor of assets of 100 FPUEs and 9 federal public institutions (FPIs), as well as the powers of a shareholder of JSCs founded by means of transformation of 55 FPUEs, to the extent of contributing with all the federally-owned equity of these JSCs in the JSC AEP's authorized capital in an order of payment for additional equity it was to place due to an increase of its authorized capital.

With account of the transfer of the 100% of AEP's equity to Rosatom, the said enterprises will find themselves under its control. In all likelihood, this prospect is real for federal enterprises and institutions with respect to which this PC is given the right to exercise the proprietor's powers, as Federal Act of December 1, 2007, № "On public corporation on nuclear energy "Rosatom" contains a provision that reads that the delegation to the PC the respective mandate with regard to FPUEs and FPIs will retain its effect during a transitional period, until their assets are assigned to the Corporation as a property contribution.

Besides the liquidation of RAO UES Russia and expansion of a number of public corporations' domains, the following developments are worth a certain attention, too.

Notwithstanding numerous speculations in 2006-2007 that JSC Rosneftgas, which was founded in late-2004 to complete a deal on boosting the federal stake in Gazprom up to a control figure, might be liquidated or reorganized after the deal was over in the summer of 2005, the company not just lingered as an independent legal entity, but has begun to extend its structure in the course of additional stock issuances. Its authorized capital, in an order of payment for the government's share, absorbed a 90.6% stake in KamchatGazprom and stakes of different value in 78 JSCs of the gas sector (including a 74.55% stake in JSC Rosgazifikatsia, the owner of a 0.87% package of Gazprom's equity).

In the summer 2008, the government increased the federal stake in JSC ALROSA, the national diamond monopoly, up to the control figure (from 37% to 51%). That became possible by contributing to its authorized capital with assets of the production and research institution Yakutalmaz. The agreement on the assignment of the latter to the federal property was reached in 2006, after long-lasting discussions with the local authorities of the Republic of Sakha (Yakutia) and the Rosimuschestvo's filing a lawsuit to the Supreme Arbitration Court of RF²³.

²³ In this case the Republic of Yakutia was to lose its power to collect rental payments from JSC ALROSA. These fees constituted a considerable fraction of its budget revenues, which was compensated by the right for

In December 2007, the RF government decided to withdraw from the FPUE Rosspirtprom's operative management a great fraction of assets (immovable property of its 18 affiliated structures, the exclusive rights for results of intellectual activity (28 patents and 82 trade marks) stakes and shares in 58 economic companies) and to contribute with them to the authorized capital of a company with the same name, the 100% stake in which will belong in the federal property. The control stakes in 11 JSCs are to be reassigned for repayment of the company's obligations before the Bank VTB by credit agreements made in 2006, but it is the newly created JSC Rosspirtprom that should exercise their trust management. A great number of objects of the social, cultural, and communal and utilities spheres fixed with Rosspirtprom are subject to reassignment to the municipal property.

As concerns developments in the defense sector in 2008, it is worth noting the introduction, as the federal contribution, of the federally owned stakes (100% minus 1 share) of 1 JSC in the authorized capital of JSC Contsern "Morskoye Podvodnoye Oruzhiye – Gydropribor", and those of 2 JSCs – in the authorized capital of JSC Contsern "Granit-Elektron" in an order of payment for additional stock placed by the companies; as well, there took place a reorganization of 2 FPUEs of the space sector by adding to each of them a unitary enterprise.

A logical effect from the increased activity of companies with the government share in their capital should have become a notable expansion of the public sector to be mirrored by various final indicators of economic activity. But the Rosstat's monitoring of the indicators in question has only partially proved this assumption (*Table 5*).

Table 5

Proportion of the Public Sector Across Some Indicators in 2005–2008, as %

Indicator	2005	2006	2007	Ist half 2008
Volume of shipped output, works completed and services by producers				
– extraction of minerals	5.5	6.0	12.8	13.7
– production of fuel and energy fossil minerals	2.9	3.9	11.8	13.6
– processing production	8.9	8.2	8.4	8.6
– electricity, natural gas and water production and distribution	13.7	10.7	11.4	12.8
Volume of construction works completed by companies	5.5	4.4	4.0	3.0
Passenger traffic by transportation organizations ^a	68.7	68.5	65.9	64.5
Volume of commercial shipments of cargo completed by transportation organizations (less the pipeline transport)	44.9	67.2	72.9	73.3
Commercial cargo turnover completed by transport organizations (less the pipeline transport)	41.8	93.9	94.6	94.2
Communication services ^b	9.3	9.8	9.8	9.8
Domestic costs of R&D	69.3	70.4	72.4	71.3
Volume of paid services delivered to the population	18.5	17.2	16.4	16.2
Investments in fixed assets out of all the sources of financing ^c	19.1/14.9	18.1/14.4	19.5/15.0	17.9/12.5
Net earnings from sales of goods, products, works, services (less VAT, excise taxes and other analogous compulsory payments)	11.2	10.2	10.2	9.6
Staff on the payroll	25.6	26.0	24.9	24.1

^a – less organizations of the urban electric passenger transport;

collecting in a full volume of the tax on extraction of diamonds (before that, as much as 40% of the respective revenues were to be assigned to the federal budget) and prospects for greater revenues generated by corporate profit tax, tax on corporate property, and dividends on the stake owned by the Republic of Yakutia's government.

^b – Net earnings from sales of goods, products, works, services (less VAT, excise taxes and other analogous compulsory payments);

^c – in numerator- without regard to small-sized businesses

Source: O razvitii gosudarsvennogo sektora ekonomiki v 2005 godu. M., Rosstat, 2006, pp. 8, 85, 92–93, 94, 103, 137, 139, 146–147, 167; O razvitii gosudarsvennogo sektora ekonomiki v 2006 godu. M., Rosstat, 2007, pp. 8, 82, 89–90, 91, 100, 134, 136, 143–144, 164; O razvitii gosudarsvennogo sektora ekonomiki v 2007 godu. M., Rosstat, 2008, pp. 9, 42, 90–91, 92, 103, 134, 136, 143–144, 164; O razvitii gosudarsvennogo sektora ekonomiki v I polugodii 2008 goda. M., Rosstat, 2008, pp. 8, 50, 58–59, 60, 71, 93, 95, 102–103, 124.

As highlighted by *Table 5*, the period between 2007 and the 1st half 2008 saw the same picture as all the 2000s did – namely, by most indicators the proportion of the public sector remained insignificant and did not exceed 10-15%. It was a bit greater by investments (15-20%, without regard to small-sized businesses) and employment (24-25%), but it was only transport shipments and domestic R&D costs that stood aside as genuinely significant exceptions (70-90% and over 70%, accordingly).

Meanwhile, the official statistics noted a substantial rise in the public sector's specific weight between 2007 and 2008 vs. 2005, as far as mineral output (primarily extraction of fuel and energy minerals) and cargo shipment are concerned. Some growth was also noted across the communication services sector, domestic R&D costs and investments²⁴.

As a result, in 2005-2006, the proportion of the public sector in mineral output was lower than the value of the indicator in the manufacturing sector, while exceeded that in terms of production and distribution of electricity, natural gas and water, in the period between 2007 and the 1st half 2008 it proved to be in excess of the noted figures. It should be particularly noted that the proportion of the public sector in production of fuel and energy minerals, which earlier had been notably inferior to the respective indicator of the public sector's contribution to mineral extraction on the whole, has practically caught up with that.

A more detailed evaluation allows one to note that by results of the period between 2007 and the 1st half 2008 it is just a few sectors by which the public sector's positions were monopolistic. Those were electricity generation at nuclear power plants, reforestation, cargo shipment and passenger railroad transportation. In some cases, the public sector held a dominant position on the market, as exemplified by production of caustic ash. In most other cases, its share was below 20%, except for production of cooking salt, ethyl hydroxide from food raw materials, cross-ties of a wide gage, some machine-engineering products (wagons, tractor seeding machines), and all kinds of paid services in which its share did not exceed 50%, anyway.

That said, one should bear in mind that the Rosstat data are based upon the definition of the public sector given in Resolution of the RF Government of January 4, 1999, №1 “On forecast of development of the public sector of the economy of the Russian Federation” (in the effective version of the document adopted by Resolution of the RF Government of December 30, 2002, №939), which fairly incompletely mirrors a real specific weight of the public sector in the economy²⁵.

For example, according to the Rosstat's monitoring, the proportion the public sector holds in production of natural gas, electricity at the heating and hydro power plants, cargo

²⁴ However, results of the 1st half 2008 fell short of proving the said trend with respect to the last two indicators.

²⁵ See in a greater detail: *Rossuyskaya ekonomika v 2007. Tendentsii i peespektivy* (issue 29). M., IEPP, March 2008, pp. 485-490. A new additional factor that diminishes the accuracy of the data fixed by the official statistical reporting is the rise of several public corporations in 2007-08 and assignment to them certain assets.

shipment accomplished by the major pipeline transport organizations between 2007 and the 1st half 2008 did not exceed 1%, which clearly conflicts with well known facts of the domination of the largest corporations with government participation (Gazprom, RAO UES Russia, Transneft with its newly absorbed asset - Transnefteproduct) over the respective sectors. The assessment of the public sector's contribution in oil output (including gas condensate) between January and June 2008 seems somewhat more realistic (16.8%). Meanwhile, by the 2007 results the proportion of public companies – if we include in their list Rosneft (including Yuganskneftegas) and Gazprom (including Gazpromneft that consolidated all the gas giant's oil assets) in oil output accounted for 31.9%²⁶, and it could hardly tumble substantially in the 1st half 2008.

The current conditions of an evident absence of transparency of property rights for a particular enterprise and the presence of a multi-stage corporate control system at public companies (by analogy with the private ones) necessitates the urgency of holding a special applied research to calculate the government's specific weight in the economy.

5.2.4. Budgetary Effect of the State Property Policy in 2000-2008

An increasingly evident effect of the world financial crisis on Russia since the autumn 2008 quite logically leads one to have a detailed examination of particular aspects of Russia's economy over recent years of a vigorous advancement. One of such aspects worth a particular attention is effects the governmental property policy has on the budgetary system.

The post-1999 shift of the emphasis of the policy from privatization onto the public property management suggests a more detailed study into financial aspects of the process and its interrelation with the budgetary system's functioning. First and foremost one discusses a considerable absolute increase in the number of sources that help complete the revenue part of the budget and their substantial diversification.

The leading role in organization of the work on mobilization of respective revenues to the federal budget has been assigned to the Agency²⁷ on management of the federal property, which regularly, shortly after the calendar year is over, publishes preliminary data on revenues to the federal budget raised through the state property management and privatization. Meanwhile, the final figures (with account of various adjustments and specifications) published in the budgetary statistics differ from the noted data by a whole range of positions.

All the revenues the federal budget collects from the state-owned property can be split into two parts, depending on their nature and sources. One group is formed by revenues from the use of the said property (renewable sources). The other group embraces occasional revenues, which may not be renewed due to the transfer of ownership from the state to other legal entities and private individuals after its sale, particularly in the frame of privatization process (non-renewable sources).

By means of classification of renewable sources of revenues from the use of the federal property, one can break them down into domestic (located within Russia) and overseas (beyond the country's borders). In the latter case, it is possible to discuss just the earnings of the Russian participant in the Vietsovpetro joint venture. The domestic sources can also be split into two groups: (1) revenues from economic operations and (2) revenues from rent (leasing)

²⁶ See: Rossiyskaya ekonomika v 2007 g. Tendentsii i perspektivy (Issue 29). M., IEPP, March 2008, pp. 253-254.

²⁷ Presently - the Federal Agency for the Public (until May 2008 – Federal) Property Management, aka Rosimushchestvo; prior to 2004 – the RF Ministry of Property Relations.

operations. The qualitative distinction between them lies in the specificity of the government's role: in the first case, it mobilizes revenues from independent economic agents that operate mostly in the competitive environment on certain markets for goods and services, and such operations are subject to the governmental direct (in the case of unitary enterprises) or indirect (economic companies) control. By contrast, in the latter case, the government appears just a passive recipient of rental fees (for the use of real estate and land lots), without being involved in organization of the tenant companies' business processes. The array of the domestic renewable sources has extended since 2001, thanks to a part of earnings raised by FPUEs and rent payments for land lots to the federal budget.

Tables 6 and 7 below present the data contained (with minor exceptions) in the 2000-2007 federal budget acts in the part of the use of the public property and its sales only in the form of material objects²⁸.

Table 6

**The Federal Budget Revenues from the Use of the Public Assets
(Renewable Sources) in 2000–2008 rr., as Rb.m**

year	total	Dividends on stock (2000–2008) and revenues from other forms of participation in capital (2005–2008)	Leasing payments for the public land	Rental payments for public assets	Revenues from transferring a part of FPUEs' post-tax profit	Revenues from the joint venture Vietsovetro's operations
2000	23244.5	5676.5	–	5880.7	–	11687.3 ^a
2001	29241.9	6478.0	3916.7 ^b	5015.7 ^c	209.6 ^d	13621.9
2002	36362.4	10402.3	3588.1	8073.2	910.0	13388.8
2003	41261.1	12395.8		10276.8 ^d	2387.6	16200.9
2004	50249.9	17228.2	908.1 ^c	12374.5 ^f	2539.6	17199.5
2005	56103.2	19291.9	1769.2 ^g	14521.2 ^h	2445.9	18075.0
2006	69173.4	25181.8	3508.0 ^g	16809.9 ^h	2556.0	21117.7
2007	80331.85	43542.7	4841.4 ^g	18195.2 ^h	3231.7	10520.85
2008	76266.7	53155.9	6042.8	114587.7 ^h	2480.3	–

²⁸ The present evaluation deliberately ignores revenues to the federal budget received as payments for natural resources (including water biological ones, revenues from the use of the forest fund and subsoil reserves), compensations for losses caused to agriculture in conjunction with withdrawal of agricultural land, resulting from financial operations (revenues from placement of budget funds (revenues by the federal budget's balances and from their placement, since 2006 –also revenues from placement of funds of the Stabilization Fund of RF, revenues from placement of sums accumulated in the course of auctions on sales of stock under the ownership of RF), interest earned by extending budgetary loans within the country at the expense of the federal budget funds, interest on intergovernmental loans (receipts from governments of foreign states and their legal entities as interest payments on loans extended by RF, receipts from corporations and organizations as interest and guarantee payments on loans RF received from governments of foreign states and international financial organizations)), from provision of paid services or compensation for the government's costs, transfers of the CBR's profit, some payments made by public and municipal corporations and organizations (patent fees, registration fees for the official registration of PC software, databases and topologies of integral microchips, and other revenues which prior to 2004 were a component of payments from public organizations (apart from earnings from operations by Vietsovetro joint venture since 2001 and transfers of a part of FPUEs' earnings since 2002), revenues from production sharing agreements, revenues from management and sales of confiscated and other property appropriated by the state (including appropriated property in the form of gift, or succession, or treasure-trove, revenues from conduct of lotteries, other revenues from the use of property and rights owned by the federal government (revenues from management of rights for results of intellectual activities (R&D and technological works) of the military, special and dual use, revenues from operations and use of property of highways and other revenues from the use of property owned by RF), as well as from permitted kinds of organizations' operations subject to credited to the federal budget, and revenues from sales of the government inventory of precious metals and precious stones.

^a – by the data of the RF Minimushestvo PΦ, not stipulated as a separate line in the 2000 Federal Budget Act, the sum of payments from public companies was set (Rb. 9887.1m) (without concrete elements);

^b – the amount of rent payments for (i) the farming land (ii) for urban and settlements' land;

^c – the sum of revenues from leasing the assets fixed with (i) research organizations, (ii) educational institutions, (iii) healthcare institutions, (iiii) public museums, public institutions of culture and fine arts, (iiiii) archive institutions, (iiiii) the RF Ministry of Defense, (iiiii) organizations under the RF Ministry of Transportation, (iiiii) organizations of the research services of the academies of sciences that have the public status, and (iiiii) other revenues from the lease of property owned by the state;

^d – basing on the data of the RF Minimuschestvo, were not singled out as a separate item in the 2001 Act on execution of the federal budget, the amount coincided with the amount of other revenues in payments from public and municipal organizations;

^e – the total value of revenues from leased the state-owned property (without singling out of rental payments for land) ;

^f – the amount of rental payments for (i) urban and settlements' land (ii) land lots in the federal property after the division of the public land ownership;

^h – the amount of revenues for the leased property fixed with (i) research organizations, (ii) educational institutions, (iii) healthcare institutions, (iiii) public institutions of culture and fine arts, (iiiii) public archive institutions, (iiiii) postal institutions of the Federal Postal Service of the RF Ministry for Communication and Informatization, (iiiii) organizations of the research services of the academies of sciences that have the public status, and (iiiii) other revenues from the lease of property owned by the state;

ⁱ – rental payments after the division of the public property for land and funds generated by sales of the right to conclude rental contracts on land owned by the federal government (for 2008 г. – except for the federal autonomous institutions' land lots);

^g –revenues from leasing the property under operating management by federal government bodies and created by them institutions, and under the FPUEs' economic management: the property assigned under operating management to having the public status: (i) research institutions, (ii) organizations of the research services of the Russian Academy of Sciences and sectoral academies of science, (iii) educational institutions, (iiii) healthcare institutions, (iiiii) institutions of the Federal Postal Service of the RF, (iiiii) public institutions of culture and fine arts, (iiiii) public archive institutions, and (iiiii) other revenues from the leasing of assets under operating management by the federal bodies of executive power and founded by them institutions, and under the FPUEs' economic management²⁹ (for 2006–2008- less revenues from permitted kinds of activities and use of the federal assets located beyond the RF Territory, which were collected overseas and were not singled out at all over the previous years³⁰).

Source: the 2000-2007 Acts on execution of the federal budget; the report on execution of the federal budget as of January 1, 2009; the authors' calculations.

The structure of revenues raised from renewable sources saw the proportion of domestic sources rise. This can be explained by the government's direct involvement in economic operations. More specifically, in 2004-06, after a non-stop growth in the specific weight of dividends in the aggregate volume of such sources was over 1/3 vs. 1/4 reported in 2000-2001 and reached 54.2% in 2007. The maximum value of the contribution of the FPUEs' earnings transferred to the budget was noted in 2003 (5.8%). The indicator has been on decline since then – 6% in 2007, nonetheless, still being in excess of the 2001-02 figures.

After experiencing certain fluctuations, the proportion of revenues from leased federal assets in 2005 accounted for 25.9%, thus being just slightly in excess of its 2000 figure

²⁹ In 2008, FPUEs as a source of revenues from leasing the assets under their economic management were not mentioned, while leasing of assets under operating management by the federal bodies of state power and institutions founded by them exclude the federal autonomous institutions' assets.

³⁰ According to the RF Minimuschestvo, revenues from the use of the federal assets located overseas (apart from the revenues on the share of the Russian participant in joint venture Vietsovpetro) accounted for Rb. 315m in 1999 and 440m in 2000. Then a major role in the organization of the commercial use of the federal overseas assets was assigned to FPUE "Predpriyatiye po upravleniyu sobstvennostyu za rubezhom".

(25.3%); over the other years of the period in question it found itself within the range between 22 and 25% (except for 2001, when it plunged to 17.2%). Revenues of the rented land were significant only in 2001-02 (10%-plus), while after that they have never exceeded 5-6% of all the revenues from the renewable sources (2005-2007), which is apparently associated with the process of division of the government land ownership and the start of its actual assignment to the lower level of the public power.

At the same time, one cannot help but pay attention to a significant role played by revenues out of external renewable sources. In 2000, the RF's revenues from operations of the Russian-Vietnamese joint venture Vietsovpetro accounted for more than a half of all the revenues out of renewable sources. This share has declined since then. But despite of its fall (to 30% in 2006) by its absolute value this revenue item of the federal budget only once, in 2005-06, became the second major source after dividends on owned by the federal government shares and revenues from other forms of participation in capital within the country, respectively (in 2004, these revenues appeared comparable), thus outpacing the aggregate volume of revenues from leased federal assets and land lots. In 2007, the absolute value of revenues from Vietsovpetro experienced a sharp (more than twice) fall (below the 2000 level) and, consequently, this item found itself outpaced by dividends and revenues from leased federal assets in the list of the renewed sources.

As concerns other kinds of renewable sources, the absolute values of revenues by them have been soaring over the whole period of 2000-2007, except for some fall in aggregate revenues from leased federal assets and land lots in 2003, when the land rent fees were not singled out as a separate item, while a part of the FPUEs' earning stagnated in 2005-2006.

In 2008, the major shift in the structure of revenues to the federal budget from renewable sources became the growing role of dividends (up to 70%) and a full absence of revenues from Vietsovpetro³¹. The 2008 absolute value of dividends soared at Rb. 9.7bn vs. 2007. But if compared with the aggregate amount of dividends and earnings raised through Vietsovpetro's operations, one has to admit its downfall. The volumes of the downfall proved to be insignificant (less than 2%), as dividends were paid by results of economic operations in 2007, when the economy did not practically sense signs of the forthcoming crisis as yet. As concerns a fraction of FPUEs' earnings due to be transferred to the budget and revenues generated from leasing public assets, the situation is far worse – these figures tumbled at 20-25%. Accordingly, also plummeted their proportion in the overall structure of renewed revenues – it has made up some 3% and 19%, respectively. The only source which in 2008 has demonstrated an unequivocal growth was land rent payments – the respective revenues to the federal budget grew by nearly 1/4, while their specific weight – up to 8%.

Proceeding to the analysis of the federal budget revenues from privatization and sales of public assets (*Table 7*), it should be noted that since 1999 revenues from sales of the bulk of such assets (stock and – since 2003- land lots³²) have begun to being attributed to sources of financing of the federal budget deficit.

³¹ In 2007, measures on developing JSC Zarubezhneft were completed. To the company's authorized capital were assigned stakes in 2 JSCs – research institutions and the 50% share of the Russian participant in the Vietsovpetro joint venture.

³² In 2003-04, with account of sales of the rental right.

Table 7

Revenues to the Federal Budget from Privatization and Sales of Assets (Non-Renewable Sources) in 2000–2008, as Rb.m

Year	Total	Sales of assets owned by the federal government (2000–2008) and other forms of participation in capital (2005–2008)#	Sales of land lots	Sales of different assets
2000	27,167.8	26,983.5	–	184.3 ^a
2001	10,307.9	9,583.9	119.6 ^b	217.5+ 386.5+0.4 (NTA) ^c
2002	10,448.9	8,255.9 ^d	1,967.0 ^e	226.0 ^f
2003	94,077.6	8,9758.6	3,992.3 ^b	316.2+10.5 ^g
2004	70,548.1	6,5726.9	3,259.3 ⁱ	197.3+1,364.6+0.04 (NTA) ^k
2005	41,254.2	3,4987.6	5,285.7 ^l	980.9 ^m
2006	24,726.4	17,567.9	5,874.2 ^l	1284.3 ⁿ
2007	25,429.4	19,274.3	959.6 ^o	5,195.5 ^q
2008	18914.1/12375.9 ^f	6665.2+29.6	1,202.0 ^p	11,017.3+0.025 (NTA) / 4,479.1 ^c

#Refer to the sources of domestic financing of the federal budget deficit; in 2009 29.6 mln. rub. were attributed to the federal budget revenues.

^a – attributed to sources of domestic financing of the federal budget deficit revenues from privatization of organizations owned by the state;

^b – attributed to the federal budget revenues receipts from sales of land lots and rights for rent of land lots owned by the state (with the separation of those on which privatized enterprises are located);

^c – the amount of receipts from (1) sales of assets in the federal property, which are attributed to sources of domestic financing of the federal budget deficit, (2) receipts from (i) apartment sales, (ii) sales of public production and non-production assets, means of transportation, other equipment and inventories, as well as (3) revenues from sales of non-tangible assets (NTA) attributed to the federal budget revenues;

^d – including Rb. 6m from raised through sales of stock controlled by the RF Subjects;

^e – attributed to the federal budget revenues gains from sales of land and NTA the amount of receipts by which was not single out in an individual order;

^f – attributed to sources of domestic financing of the federal budget deficit revenues from sales of public assets (including Rb. 1.5m from sales of assets belonging to the RF Subjects);

^h – including collected to the federal budget receipts from: (1) sales of land lots whereupon immovable property objects are located, which prior to their alienation had constituted federal assets, (2) sales of other land lots and sales of the right for conclusion of contracts on their rent, (3) – collected to the federal budget and attributed to sources of domestic financing of the federal budget deficit receipts from sales of land lots upon the division of land ownership, as well as from sales of the right to conclude contracts on their rent;

ⁱ – the sum of (1) attributed to sources of domestic financing of the federal budget deficit receipts from sales of assets owned by the federal government and (2) attributed to the federal budget revenues receipts from sales of non-tangible assets ;

^g – comprises revenues: (1) collected to the federal budget from sales of land lots prior to the division of ownership for land whereupon immovable property objects that prior to their alienation fell under the federal property, (2) from sales of other land lots and sales of the right for conclusion of contracts on their rent, (3) collected to the federal budget and attributed to sources of domestic financing of the federal budget deficit receipts from sales of land lots upon the division of land ownership, as well as from sales of the right to conclude contracts on their rent;

^k – the sum of (1) attributed to sources of domestic financing of the federal budget deficit revenues from sales of assets owned by the federal government, collected to the federal budget receipts from (i) apartment sales, (ii) sales of public production and non-production assets, means of transportation, other equipment and inventories, as well as well as (iii) from sales of vessel utilization products, (iiii) from sales of assets of FPUEs, institutions and military inventories, (iiiii) from sales of products of utilization of armaments, military equipment and ammunition, (3) attributed to the federal budget revenues receipts from sales of non-tangible assets (NTA), relevant to the budget revenues;

^l – comprises receipts from: (1) sales of land lots prior to the division of ownership for land whereupon immovable property objects that prior to their alienation fell under the federal property, (2) collected to the federal budget receipts from sales of land lots upon the division of land ownership, (3) attributed to sources of domestic financing of the federal budget deficit revenues from sales of other land lots that had been the government property prior to the division of land ownership and which are not designated for house building (the latter specification concerns solely the year of 2006);

^m – revenues from sales of tangible and non-tangible assets (exclusive of the federal budget funds raised through management and sales of confiscated and other appropriated by the state assets include receipts from (i) apartments sales, (ii) sales of FPUEs' assets, (iii) sales of assets under the federal institutions' operative management, (iiii) sales of military assets, (iiiii) sales of products of utilization of armaments, military equipment and ammunition, (iiiii) sales of other assets under the federal ownership, (iiiii) attributed to the federal budget revenues receipts from sales of non-tangible assets;

ⁿ – revenues from sales of tangible and non-tangible assets (exclusive of revenues in the form of a share of the government's profit production in the course of execution of production sharing agreements and the federal budget funds raised by managing and selling appropriated by the state escheat and other assets), comprise revenues from включают доходы (i) apartments sales, (ii) sales of FPUEs' assets, (iii) sales of assets under the federal institutions' operative management, (iiii) sales of military assets, (iiiii) sales of products of utilization of armaments, military equipment and ammunition, (iiiii) attributed to the federal budget revenues receipts from sales of other assets owned by the federal government;

^o – attributed to sources of financing of the federal budget deficit revenues from sales, upon the division of land ownership, of the previously owned by the federal government land lots;

^p – revenues from sales of tangible and non-tangible assets (less revenues in the form of the government's profit products under execution of production sharing agreements and the federal budget funds from management and sales of escheat and other assets taken by the state, and sales of sales of sequestered timber) include receipts from (i) apartments sales, (ii) sales of FPUEs' assets, (iii) sales of assets under the federal institutions' operative management, (iiii) sales of released movable and immovable military, and other property of federal agencies of executive power, which provide for the military and equaled to it service, (iiiii) sales of military goods the federal agencies of executive power have in the frame of military and technical cooperation, (iiiii) attributed to the federal budget revenues receipts from sales of other assets owned by the federal government;

^q – attributed to the federal budget revenues receipts from sales of land lots owned by the federal government (except for land lost of federal autonomous institutions);

^r – receipts from sales of government assets (less revenues in the form of the government's profit products under execution of production sharing agreements and the federal budget funds from management and sales of escheat and other assets taken by the state, and sales of sales of sequestered timber), include those raised by (i) apartments sales, (ii) sales of FPUEs' assets, (iii) sales of assets under the federal institutions' operative management (except autonomous ones)³³, (iii) sales of released movable and immovable military, and other property of federal agencies of executive power, which provide for the military and equaled to it service, (iii) from sales of products of utilization of armaments, military equipment and ammunition, (iiiii) sales of military goods the federal agencies of executive power have in the frame of military and technical cooperation, (iiiii) sales of products of utilization of arms and military equipment in the frame of the Federal Target Program "Industrial utilization of arms and military equipment (2005–2010), (iiiii) sales of special raw and fissionable materials, (iiiii) attributed to the federal budget revenues receipts from sales of other owned by the federal government assets, as well as receipts from sales of non-tangible assets (NTA); in the common denominator – without regard of receipts from sales of special raw and fissionable materials, which is necessary for a correct comparison with the prior years.

Source: the 2000-2007 Acts on execution of the federal budget; the report on execution of the federal budget as of January 1, 2009; the authors' calculations.

It was sales of the federal stakes that held a pivotal place in the structure of the asset-related federal budget revenues from non-renewable sources. But the specific weight of this particular source has been gradually declining from 85% in 2005 to 71% in 2006 and 76% in 2007 vs. 90%-plus in the preceding years, except for 2002 (79%).

³³ Less receipts from sales of the FPUEs' assets as well.

Meanwhile, the proportion of budget gains from sales of land lots was on the rise, accounting for 12.8% in 2005 and 23.8% in 2006 vs. less than 5% reported in the prior years, except for 2002, when it made up 18.8%. The proportion of receipts from sales of other kinds of assets, including sales of the FPUEs and other institutions' assets and military property, has been fairly modest since 2004, except for 2001 and 2006 when it stood at 5-6%. In 2007, these sources of budget revenues traded places with each other: the specific weight of assets sales posted a sharp growth up to 20.4%, while that of sales of land lots plummeted to below 4%.

Having reached its maximum value in 2003 (some Rb. 89.8bn), the absolute amount of revenues from equity sales has been on decline over the next years. The fall was particularly notable in 2005-06, when the revenues plunged nearly twice. Nonetheless, even after such a drastic fall the 2006-07 the revenue volumes were practically twice as high compared to those back in 2001-2002. Characterizing the 2007 outcomes, Rosimuschestvo emphasized that despite there were no sales of large and the largest joint-stock companies' equity (worth in total of Rb. 3bn-plus), the respective receipts accounted for some Rb. 193.3bn, or 10% more than in the prior year. The agency also noted that without regard to receipts from such sales, during the last 4 years the collected to the federal budget annual amount of receipts from privatization grew nearly 2.5 times vs. the sum of Rb 7.8bn reported in 2004 (Rb. 11.8 bn. in 2003, some 12.95bn in 2005 and 12.1bn. in 2006)³⁴.

Revenues raised through sales of land lots demonstrated a clear trend to growth (with the year of 2004 being a minor exception). But they failed to compensate for the fall in revenues (which accounted for some Rb. 5.9bn in 2006) from equity sales. The next year they shrank drastically - under Rb. 1bn. Receipts from sales of various kinds of assets have been fluctuating within an ample range – they exceeded Rb. 1 bn only in 2004 and 2006, and 2007, when they accounted for Rb. 5.2bn.

The year of 2008 saw the absolute value of the federal budget revenues from privatization and sales of assets fall more than twice³⁵.

Receipts from equity sales shrank nearly 3-fold, while those from sales of various assets plunged at 14%. At the same time, receipts from sales of land lots posted a nearly ¼ growth – the specific weight of land lots in the overall structure of non-renewable sources has clearly been on the rise. But this particular source still was the least significant one vis-à-vis receipts from equity sales (54.1%) and those from sales of various assets (36.2%).

The budgetary statistics show that constancy has not been a salience of the aggregate volume of revenues from privatization and use of the government property (*Table 8*). This proportion became the most weighty one in 2003-2004 (Rb. 135.3bn and 120.8bn, respectively). In the next 2 years, it plunged to less than Rb. 100bn, albeit still being practically twice as high vs. the annual indicators of 2000-2002. In 2007, the amount of the federal budget revenues from privatization (sales) and use of the public property once again exceeded Rb. 100bn, albeit being inferior to the 2003-2004 indicators.

³⁴ Otchet o privatizatsii federalnogo imuschestva v 2007 g. M., FAUFI, 2008.

³⁵ In 2008, in receipts from sales of assets there appeared a new revenue item – receipts from sales of special and fissionable materials, which was non-existent over the prior years. That is why a correct comparison requires not to take into account this kind of receipts while evaluating the receipts raised through both sales of various assets and aggregate receipts from non-renewable sources on the whole.

Table 8

Structure of the Federal Budget Revenues of Property Nature out of Various Sources in 2000–2008

Year	Aggregate revenues from privatization (sales) and use of the public assets		Receipts from privatization (non-renewable sources)		Receipts from the use of the public property (renewable sources)	
	Rbm.	As % to result	Rbm.	As % to result	Rbm.	As % to result
2000	50,412.3	100.0	27,167.8	53.9	23,244.5	46.1
2001	39,549.8	100.0	10,307.9	26.1	29,241.9	73.9
2002	46,811.3	100.0	10,448.9	22.3	36,362.4	77.7
2003	1,35338.7	100.0	94,077.6	69.5	41,261.1	30.5
2004	1,20798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	10,5761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,642.6	100.0	12,375.9	14.0	76,266.7	86.0

Source: the 2000–2007 Acts on execution of the federal budget; the report on execution of the federal budget as of January 1, 2009; www.roskazna.ru; the authors' calculations.

There occurred a cardinal shift in the structure of aggregate revenues from privatization (sales) and use of federal assets in favor of the renewable sources. While in 2000 the proportion of revenues from privatization and sales of assets accounted for some 54% of the aggregate revenues, the next year it shrank more than twice, while in 2002 one had noted its minimal value over the whole 7-year period (22.3%). The situation reversed drastically in favor of the privatization and assets sales revenues in 2003 – at the time, they secured nearly 70% of the volume of the aggregate revenues.

The period between 2004 and 2006 saw a steady rise in the proportion of revenues from use of public assets against a constant fall in the specific weight of revenues from privatization and sales, which in 2007 accounted just for 24%, which is comparable with the 2001–2002 figures. As a result, in 2005–2007, like in 2001–2002, revenues from use of public assets secured over a half of all the aggregate revenues. Of particular notice is the fact that in 2001–02 and 2006–07 they secured over 70% of the aggregate budget revenues.

The 2008 financial results in the part of the structure of the asset-related federal budget revenues out of different sources have increasingly solidified this trend. The proportion of revenues from use of the public assets accounted for 86% - the maximum value ever reported over the 2000s. Accordingly, the proportion of revenues generated by privatization was the minimum one – 14%.

One should help but notice a more than a 16% fall of the indicator of the aggregate revenues vis-à-vis 2007. Its absolute value (Rb. 88.6bn) proved to be the minimum one over the period since 2003. Having managed not sink below their 2006 level, the revenues from use of public assets became a kind of buffer, while those from privatization and sales of various kinds of assets were just slightly over their respective indices of 2001–2002, but proved to be lower than both the results of all the subsequent years and figures reported in 2000.

In the conditions of the unfolding crisis, however, one cannot count on a stable influx into the budget of revenues from renewable sources, primarily because of the aggravating financial and economic state of corporations with the government participation and an overall contraction of business activity.

In this sense, the situation with dividends is quite illustrative. Rosimuschestvo proposed the RF Ministry for Economic Development and Trade to differentiate the dividend policy by breaking down all the corporations of this kind into three groups:

- the companies with publicly traded stock (for example, Gazprom, VTB, Rosneft, Aeroflot) whose approaches to the dividend policy should remain unchanged;
- the companies bound to pay dividends only on preferred stock (Transneft);
- the companies unsusceptible to the financial crisis, which must pay dividends, unless they can produce grounded plans and budgets to prove their need in funding for the ongoing operations and investment ones.

The agency believes that paying dividends by other companies is inappropriate. This primarily concerns dividends of the public companies that have failed to join in the Top-20 ones and which in 2008, by results of 2007, secured Rb. 1.9bn in dividends payable to the federal government.

Meantime, according to Rosimuschestvo, the Top-20 group of the largest public companies secured 96.4% of all the dividend payments to the budget. Of this group the following companies have their shares publicly traded: Gazprom, VTB, Sovkomflot, Aeroflot, Novorossiysk maritime commercial harbor, Irkutskenergo, FSK UES. Transneft has only its preferred shares publicly traded, while Svyazinvest – only its daughter companies' stock. As for companies with non-traded stock, the group comprises ALROSA, Zarubezhneft, Concern PVO "Almaz-Antey", JSC RZHD, International Airport Sheremetyevo, SG-trans, Tuapse maritime commercial harbor, Rosagrolizing, Sevzapelectrosetstroy, Rosgazifikatsia, Rosneftegas³⁶.

By the 2007 results, Gazprom paid 17.5% of its profit to the shareholders (the government's share accounted for some Rb. 31.5bn), Rosneft approved dividends at an amount of 10.5% of its net profit by Russian Accounting Standards (the government's share is Rb. 12.75bn), VTB- 50% (Rb.6.7bn), Transneft – 18% (Rb. 750m), Aeroflot- 25% (some Rb. 760m³⁷), Sheremetyevo – 10% (Rb. 104m). JSC RZHD blew with just 0.6% of its profit and paid to the government Rb. 512.2m, but the railway monopolist has had a special situation, with its profit being a paper-and-pencil one as a result of the asset revaluation.

Not daring challenge minority shareholders of the public companies, Rosimuschestvo proposes to indirectly alleviate their situation, too, – the agency claims it will not insist on sizeable payments. It believes that the government should hear boards of directors' recommendations, rather than forward directives on a minimum level of payments out of the net profit. Until now Rosimuschestvo has recommended the public corporations to pay not less than 25% of their profit in dividends.

In the crisis conditions, the refusal to pay dividends can be regarded as a way to somewhat shake off the financial load – a measure to complement the tax policy ones and target aid granted by the state. This measure can give a much-needed upper hand to relatively small, nonpublic corporations.

In all, the agency hopes that in 2009 it would ultimately cash in just Rb. 30.7bn., instead of Rb. 50.7bn-worth, in dividends. This inevitably requires adjustments to budget orders³⁸,

³⁶ While not exercising economic operations, Rosneftegas is an owner of the government stakes in Gasporm and Rosneft, and as such, it pays dividends.

³⁷ The only large corporation that was following the recommendation to forward not less than ¼ of its net profit on payment of dividends.

³⁸ Rebrov D., Kiseleva E., Shapovalov A. Bezdokhodnoye proizvodstvo//Kommersant, №226/P (4043) of 11.12.2008.

albeit it cannot be excluded that the cold truth of the crisis would compel the government to dump the idea of collecting dividends at all.

5.2.5. A Possible Effect of the Financial Crisis on the State of Property Relations

The gradual intensification of negative developments in Russia's economy was noted through the whole year of 2008. It has affected primarily the national financial markets (including the stock market) and the investment process, and raised the question of the beginning of a new stage of Russia's as a whole.

While speaking of the country's macroeconomics and financial system, one with a greater or lesser degree of certainty can reference to possible trends of future changes, their determination by a known set of parameters (world prices for energy sources, export and import volumes, exchange rate, etc.), but the sphere of property relations exhibits a far greater level of variability, which is associated with both the impact of the global financial crisis and the start of a new business and political cycle in the country.

The crux inevitably lies in the problem of the nature of mergers and acquisitions - the usual companions to economic crises in a market economy. An evident deceleration of the privatization process post-2004, particularly on the federal level wherein the state was an owner of the most weighty and attractive assets, has chronologically coincided with the start of the today's stage of mergers and acquisitions in the economy, when corporations with governmental participation have notably expanded across a number of sectors as buyers of assets.

Investors have begun to regard the presence of a government-owned package in a company's capital as an extra factor of its reliability and sustainability, as reflected by international rating agencies' assessments. The dark side of the trend to the public companies' greater activity on the market for corporate control has become a sharp rise of their accounts payable. That highlighted the problem of alternative choices with respect to financial investments and investments in fixed assets, sources of their financing and the regulatory role the government plays as a key stakeholder in tackling this problems.

The quantitative assessments available over the period between 2003 and 2007, along with new avenues of the government's property activity over the last two years, so far have not given grounds to assume that the state has slowed down with its expansion in the sphere of property, though 2008 highlighted respective signs of that.

As the RF President declared in his Address to the Federal Assembly of November 5, 2008, the crisis would not engender a nationalization of the industrial sector and finance. Addressing the economic agenda, since the early-2009 the top political leadership put forward a comparatively new thesis of urgency of the task of acquiring of assets located overseas. The players on the M&A market (which in the pre-crisis 5-year period were mostly public companies) may interpret it as a signal to focus their efforts on what lies beyond the country's borders.

The completion of a deal between Gazprom and the Siberian Coal Energy Company (SUEK) scheduled for the end of the summer of 2008 faced the Federal Anti-Monopoly Service's opposition³⁹.

SUEK was going to hold an additional stock issuance, to be paid for with Gazprom's electricity assets (from its share in RAO UES Russia after the reorganization of the electricity

³⁹ www.opec.ru, 09.06.2008.

monopolist), as well as the already received by the latter shares in new companies that had emerged in the course of the process (a 15.61% stake in JSC OGK-2, a 17.13% stake in JSC OGK-6, a 5.27% stake in OGK-5, and a 5% stake in TGK-5. If completed (and with account of the summer 2007 swap of RAO UES Russia's equity between Gazprom and other minority shareholders of the electricity monopolist), the deal would have resulted in SUEK getting control blocks in JSCs OGK-2 and OGK-6, while the natural gas monopolist should have acquire a 50%+1 share in one of the biggest national energy corporations.

Such a format of interaction between Gazprom and SUEK might imply establishment of an indirect control by the state over a considerable fraction of generating capacities in the national electricity sector, as Gazprom's control over own energy assets and SUEK's ones would complement the already existing to that day full ("Rosenergoatom" concern, which was due to be included in the structure of "Atomny energopormyshlenny kompleks" (AEP) holding, which in turn was to be assigned as a property contribution to PC "Rosatom") or partial presence of the state in assets of individual segments of this sector.

As concerns signs of a slowdown in the government's property expansion, one of them became drastic cuts in the list of the strategic enterprises and joint-stock companies. As many as 176 unitary enterprises and 195 JSCs were crossed out, to be replaced by just 1 FPUE and 2 JSCs. But the exclusion of the overwhelming majority of the assets was associated with their assigning to PC Rostekhnologii.

The formal nature of representation of the state on boards of numerous companies wherein the government has a share in the capital vis-à-vis the role played by the top executive management has made the practice of attraction of independent directors thereinto a hot issue. Of the largest corporations with a government share, it was RAO UES Russia (until its liquidation), Rosneft, Sberbank, VTB and RZHD that attracted independent directors. By contrast, they are absent in boards of Gazprom, Svyazinvest (though there are independent directors on all its daughter companies' boards), Transneft, Rosneftegas, Sovkommflot, and Aeroflot⁴⁰.

At this juncture, given what the government representatives (Igor Shuvalov, the First Vice-Premier of the RF Government, at the XII St. Petersburg International Economic Forum and Arkady Dvorkovich, the presidential aide, in June 2008) have ascertained, there will be steps made to limit the bureaucrats' sitting on the public corporations' boards by means of rotation of their composition, along with a gradual increase in the number of independent directors, primarily in the JSCs in which the government holds the 100% stake⁴¹. But so far there is no clarity with respect to proportions of such a replacement and the array of companies where bureaucrats will keep on representing the state interests. In practice, the novelty has already been tested at 11 public companies with the 100% government-owned stake. According to Mr. Igor Shuvalov, in June 2008, independent directors were co-opted to their boards to improve corporate governance, albeit a fairly widespread opinion is that the move constitutes a first step in preparations for a possible sale of the federal stock packages in such companies⁴².

In this respect it should also be noted that amendments introduced by Resolution of the RF Government of July 28, 2008 № 572 to the approved in December 2004 Statute on man-

⁴⁰ Malkova I., Surzhenko V. Nezavisimye pomogut//Vedomosti, 14.09. 2007, №173 (1947), B 01.

⁴¹ Den nezavisimogo direktora. 9.06.2008. Interfax.ru

⁴² Netreba P., Butrin D. Privatizatsii nakidyvayut srok. In: Kommersant, №145/P (3962) of 18.08.2008.

agement of owned by the federal government equity of open-end joint-stock companies and use of the special right of the Russian Federation for managing open-end joint-stock companies (“the golden share”) have excluded individuals, whose candidacies the Russian Federation had proposed for electing in boards of directors as independent directors, from the group of state representatives that exercise their duties on the basis of the Statute.

Furthermore, along with representatives of the RF’s interests, independent directors have now been given the right to initiate at Rosimuschestvo and other government agencies, with invitation of other governmental representatives, discussions on matters put on the agenda of a JSC’s board of directors and to receive necessary information, except for the one the company is bound to provide them with.

At the same time, the circle of matters, by which Rosimuschestvo is bound to issue directives in writing to government representatives, has been slightly narrowed; plus, directives on other matters that fall under the board of director’s competence, may be used, only sobeit the chairman of the board puts a respective proposal.

Let us note that against such a background, other novelties in the federal property management area appear fairly questionable. This concerns the possibility for trust FPUEs and public JSCs at the stage of their incorporation to sectoral ministries. A suggested pilot project involves road-building organizations with the prospect for creation on their basis of a huge public company or a new public corporation⁴³.

The concept of competition between ministries and federal agencies, that currently administer unitary enterprises, explicitly conflicts the approaches declared by the 2004 administrative reform. Besides, it additionally complicates the already sophisticated pattern of interaction between different government agencies in the course of implementation of managerial procedures with regard to the economic agents under the federal ownership which lacks an undivided authority. As well, this move compels one to question the mere possibility for ministries to be capable of an efficient administering of the respective sector (their mandate) on the whole, and the possibility for agencies of being capable of dealing with implementation of their respective mandates that proceed from the law (primarily, the Act on unitary enterprises). Furthermore, the effective trust mechanism emerged in the 1990s implies attraction to managing government stock packages (but not FPUEs) of legal entities (but not government agencies) on the competitive basis and with a potential orientation to getting efficient managers from the private sector involved in the process.

Yet more dubious appears a delegation to the RF Ministry of Defense of powers to exercise, on behalf of the government, the stockholder’s rights (remarkably, independently by a number of issues) with respect to JSCs founded resulting from privatization of subordinated to the Ministry FPUEs, whose stock is owned by the federal government, as well as, upon the government’s decision, with respect to other joint-stock companies with the federal stakes in them. This novelty was introduced in the aforementioned Statute on management of owned by the federal government equity of open-end joint-stock companies and use of the special right of the Russian Federation for managing open-end joint-stock companies (“the golden share”)

⁴³ Ntreba P. Pravitelstvo vzyalos za dorozhny vopros// *Commersant*, №145/P (3962) of 18.08.2008.

by Resolution of the RF Government of December 29, 2008, №1053 ‘On some measures on managing the federal property’⁴⁴.

The absence of announced plans on a further comprehensive expansion of the sphere of the governmental entrepreneurship across whole sectors of the economy, as it had been already done in the air transportation and nuclear sectors, and the ship-building industry, does not mean an automatic contraction of the size of the public sector itself due to advancement of privatization, as inclusion in a respective program of sizeable assets that by their significance appear comparable with those privatized prior to 2004 (for instance, the government stake in the telecom giant Svyazinvest, whose sales were repeatedly postponed in the past) is questionable. In conjunction with this, it should be remembered that the previous financial crisis, which had battered the economy in 1997-98, reduced the privatization procedures to minimum, because of a multiple price downfall for assets, abandonment of the national market by numerous potential investors, and the political uncertainty, albeit at the time, it was only some emerging markets (the south-east Asian and Latin American ones), rather than G-7 countries, as today, that fell prey to the crisis.

The impact of the financial crisis of the autumn of 2008 on the Russian market for corporate control has still been not quite clear. On the one hand, having gone down in value, the assets constitute a natural object for potential mergers and acquisitions, particularly in the eyes of both public and private companies. On the other hand, the accumulated debt load and the loss of the ease of access to loans should objectively help one sell a part of the assets, or, at least, they should arrest new purchases.

Much will depend on magnitude and format of the government support to be granted to the Russian banks, their priorities of crediting the real sector, and the degree to which the state would be keen to participate on the stock market.

The major channels of extension of financial support out of budgetary funds and through CBR’s loans have undoubtedly become the economic structures with the governmental participation – PC Vneshekonombank (VEB), Sberbank, and the Agency for Mortgage Loans (AIZHK).

At the same time, public companies have not dominated over the group of recipients of the funds in question – quite the opposite, it was well known private corporations, such as RUSAL, Alfa-Group, JSC Mechel that were among the first to receive cheap credits from the VEB. This contradicts to the recently established opinion of the public companies’ privileged position, thanks to their interaction with authorities.

As well, one should not help noting that the comeback to the practice of extending soft loans has heralded a certain revision of principles of financial responsibility, impermissibility of soft budget constraints with respect to economic agents’ operations, consistency in application of insolvency (bankruptcy) procedures, whose introduction into the national economy back in the 1990s was painful and costly. Furthermore, at the time, it was the agrarian sector, coal-mining and defense industries that were main candidates for such a support. Those were the sectors, which, due to their specificity, constituted, as proved by international experience, certain deviations from typical models of organization and conduct of business. Nowadays, the group of pretenders for the support comprises corporations from the sectors that owed

⁴⁴ This document also introduced amendments to Resolutions by the RF Government of June 6, 2003, №333 and of December 3, 2004, №738, which defined the mechanism of realization by government bodies of powers of proprietor of FPUEs’ assets in the part that concerns legal powers exercised by the RF Ministry of Defense.

their recent successful advancement to market forces (the mineral sector, metallurgy, construction and trade). It should be noted, though, that the credits to refinance the loans taken overseas were extended against their equity. Should the borrower fail to repay the loan, the VEB would be in a position to exercise the ownership right. For instance, RUSAL received Rb. 121bn on security of the blocking package in Nornickel, while Alfa-Group received a collateral loan against its stakes in X5 retailer and Vympelkom.

As well, some banks have received 10-year loans from the VEB: specifically, Vneshtorgbank received Rb. 200bn, Rosselkhozbank – Rb. 25bn, some regional banks – 225bn, and Sberbank – 500bn. (a 10-year loan from CBR)⁴⁵. It is critical what will be their actual credit policy priorities.

As concerns the VEB, in addition to resources to ensure direct credits for the real sector (Rb. 1.3trln to refinance corporations' overseas borrowings) and for the banking sector (Rb. 450bn), it received Rb. 175bn to buy stock and bonds on the exchange market, another 75bn to guarantee completion of transactions at exchanges, and 30bn to credit small- and medium-sized businesses.

Meanwhile, some business groups have failed to get access to the government support. For them the crisis, which has already drastically constrained a possibility for attraction of borrowed capital, should become a catalyst of their restructuring with a prospect of a possible change of their owners. Time will show how deep and sweeping such a restructuring will be, as far as public companies are concerned. As the recent experience (albeit in the conditions of economic growth and a positive dynamic of the financial markets) already showed, the restructuring may well comprise a sale of a fraction of the accumulated assets. That should engender a change of the role the companies with a government share in their capital would play on the M&A market and lead to their transformation from major buyers into sellers⁴⁶. It cannot be excluded, of course, that these companies may try new mergers and acquisitions themselves, with new corporations in various sectors being their targets.

That said, there arises an inevitable question of the role played by the state. It will be compelled to act indirectly, via its representatives in managing bodies of such companies, granting a permit to execute such deals or blocking them, rather than directly, as it was noted under standard privatization procedures. At this point, contiguous problems are the dividend policy (in the light of collection extra revenues complementing proceeds from current operations) and identification of prospects for the government with respect to retaining its participation in the corporate capital.

It is in the medium term that it shall become clear whether a reorganization of the managerial and organizational aspects of individual companies' functioning means optimization of the public sector as a whole.

Reflecting on efficiency, the government's presence in the economy in terms of property relations has to be brought in line with its real managerial capability, which is fairly modest. Hence, the government should center its efforts on optimization of the existing assets, enhancement of efficiency in managing the already existing public companies by identifying their place in the system of the state priorities, securing transparency of financial flows, and disseminating the best practices and standards of corporate governance.

⁴⁵ In addition, the RF Ministry of Finance has placed Rb. 1.5trln on deposits with commercial banks.

⁴⁶ In this respect, one can reference to the practice of reforming natural monopolists, primarily, the electricity sector. Also, similar processes may be envisaged in the railroad transportation sector.

As concerns the problem of the public companies' participation in mergers and acquisitions, the focal point should become restricting acquisitions of non-core assets and a more thorough selection of decisions that require consent of the government both as an owner and the market regulatory authority. Because of the financial crisis, it is fairly possible that in the nearest future the privatization process in the country will decelerate. Hence, a very possible scenario under which the government would for long remain an owner of a huge volume of assets, including those not directly associated with its public functions. That is why one can presently assert that as far as the sphere of public property management is concerned, the priority mission for several years to come will remain an ultimate implementation of the set of measures on improvement of management of public assets as outlined in the "Concept for management of public property and privatization in the Russian Federation"⁴⁷.

⁴⁷ Resolution by the RF Government of September 9, 1999, №1024.