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R95 **Russian Economy in 2015. Trends and Outlooks. (Issue 37) /**
[V. Mau at al; ed S. Sinelnikov-Murylev (editor-in-chief), A. Radygin];
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The review provides a detailed analysis of main trends in Russia's economy in 2015. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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The situation in the public sector and privatization in Russia in 2015¹

6.1.1. The scope of public property

According to the Federal Property Register, the movement, over the period 2013–2015, of the number of organizations registered as holders of ownership rights and economic societies with state stakes appears to be as follows (*Table 1*).²

Table 1

The number of organizations - users of federal property, in 2013–2015

Date	Number of joint-stock companies with federal stakes (including by special right), units	Number of holders of ownership rights to registered federal property entities other than economic societies or partnerships, units			
		total	including		
			FSUE ³	FTE	FSI
As of 1 January 2013	2,442/2,337 ^a	22,330	1,800/1,795 ^b	72	20,458
As of 1 April 2013	2,412	21,459	1,775	73	19,611
As of 1 October 2013	2,281	20,175	1,742	73	18,360
As of 1 January 2014	2,203 ^c	19,733	1,727/1,181 ^d	76	17,930
As of 1 April 2014	2,142	19,603	1,789	78	17,736
As of 1 July 2014	2,100	19,318	1,704	77	17,537
As of 1 December 2015	1,783/1,719 ^e	...	1,257/ 1,178 ^f	43 ^g	16,802 ^g

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

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

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

^d – according to the Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016, by early 2014 the Russian Federation had been the owner of property of 1,181 FSUEs, which is nearly by 1/3 less than the figure reported in the Federal Property Register, and so gives rise to many serious questions;

^e – according to the presentation by the RF Federal Agency for State Property Management (*Rosimushchestvo*) delivered during the discussion, in late 2015, of the alterations to the government program (GP) *Federal Property Management* suggested on the basis of recommendations put forth by the RF Accounts Chamber, the Federal Property Register contains information on 1,783 OJSC, CJSC and LLC, with slightly lower (by 3.5%) number of stakes and shares;

^f – according to the presentation by *Rosimushchestvo* delivered during the discussion, in late 2015, of the alterations to the government program (GP) *Federal Property Management* suggested on the basis of recommendations put

¹ Authors of this section: Malginov G. – Gaidar Institute for Economic Policy, Radygin A. – RANEPa.

² Hereinafter we rely on data published in the documents of the RF Federal Agency for State Property Management (*Rosimushchestvo*) posted to its official website at www.rosim.ru (including the 2014 and 2015 Reports on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016; 2011 and 2014 Reports on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC's Management ('Golden Share'); 2013 Annual Report on Alterations to the Federal Property Register Resulting from the Arising and Termination of Russian Federation Ownership Right to Immovable and Movable Property, etc.); the materials released by the RF Ministry of Economic Development at www.economy.gov.ru; and the data released by the Federal Treasury (Report on Federal Budget Execution as of January 1, 2016 (monthly report), www.roskazna.ru).

³ FSUE stands for *federal state unitary enterprise*.

forth by the RF Accounts Chamber, the Federal Property Register contains information on 1,257 FSUEs, while the number reported as of the beginning of Q4 is somewhat lower (approximately by 6%);

[§]— according to the presentation by *Rosimushchestvo* delivered during the discussion, in late 2015, of the alterations to the government program (GP) *Federal Property Management*.

Source: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; www.economy.gov.ru, April 23, 2013, January 17, 2014, April 18, 2014, August 7, 2014; 2013 Annual Report on Alterations to the Federal Property Register Resulting from the Arising and Termination of Russian Federation Ownership Right to Immovable and Movable Property; 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016, www.rosim.ru, February 19, 2015; www.rosim.ru, December 21, 2015.

Over a period of approximately one year and a half (from mid 2014 to the end of 2015), the number of organizations involved (in any way) in the use of federal property somewhat declined. This trend was strongest in the group of federal treasury enterprises (FTE) (a decline by nearly 45%), and weakest in the group of federal state institutions (FSI) (a decline by approximately 4%). The movement pattern of the number of federal state unitary enterprises (FSUE) largely depends on a particular source of information: if one relies on data in the Federal Property Register, then since early 2014 their number shrank to a little more than $\frac{1}{4}$; if the data applied by *Rosimushchestvo* are to be relied on, their number remained practically unchanged. The total number of economic societies with state stakes dropped by more than 15%.

The most complete available data on the structure of joint-stock companies relative to the size of the stake held by the State, and especially on the specific features of the mechanisms applied in their management can be found in the 2014 Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share').¹ According to the data from the Federal State Information Systems Operator *Single Federal Property Management System (FGIAS ESUGI)* presented in the Report, as of August 1, 2015 the Federal Property Register contained information on 1,864 JSCs with state stakes (in federal ownership), including those 103 JSCs where the State held the special right to participate in a company's management granted by 'golden share'.

Compared to data as of July 7, 2014, when the Federal Property Register contained information on a total of 2,096 JSCs with a state stake in federal ownership², their number shrank by 11%.

However, *Rosimushchestvo* could fully exercise its shareholder rights in only 980 JSCs out of a total of 1,864 JSCs (or only 52.6% of all JSCs vs. 54.7% as of summer 2014 and vs. 57.7% as of summer 2013).

The composition of the remaining group of 884 companies was as follows:

- societies with state stakes amounting to less than 2% of their charter capital, where, in accordance with Item 1 of Article 53 of Federal Law, of December 26, 1995, No 208-FZ 'On Joint-stock Companies', no proposals put forth by shareholders can be entered on the agenda of a general shareholder meeting) (373 units,³ or approximately 20% of all JSCs);
- economic societies where the ownership rights to state stakes are delegated to other federal bodies of executive authority (FBEA) and state corporations (for example, the RF Ministry of

¹ www.rosim.ru, September 3, 2015.

² 2013 Year-end Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share').

³ Including 75 JSCs where the State holds the special right to participate in a company's management granted by 'golden share'.

Defense, *Rostec* Corporation (formerly *Rostekhnologii*), *ROSATOM* Corporation), or JSC operated under a trust management agreement) (291 JSCs, or 15.6% of all JSCs);¹

- economic societies undergoing a proceeding in bankruptcy (151 JSC, or 8.1% of all JSCs);
- economic societies undergoing a liquidation procedure (60 JSC, or 3.2% of all JSCs);
- economic societies currently with no stakes effectively in the ownership of the Russian Federation (for example if an entity has been privatized, or transferred as a contribution to the charter capital of a vertically integrated structure (hereinafter – VIS) (9 JSCs, or 0.5% of all JSCs).

In this connection it should be noted that the number of JSCs with regard to which *Rosimushchestvo* can exercise only a limited shareholder right, had declined on 2013 by 6.9% (or by nearly 65 units), these being in the main economic societies with state stakes amounting to less than 2% of their capital (by 63 units, or by 14.4%) and the societies the shareholder right to which had been transferred to other subjects (by 11 units, or by 3.6%). It can be said that in principle, the number of JSCs undergoing a proceeding in bankruptcy or a liquidation procedure changed insignificantly (by 3-5 units).² This is also true of the group of JSCs with no stakes effectively in the ownership by the Russian Federation (an increase by 1 unit).

Now we are going to look at the structure of JSCs from the point of view of the size of the stake held by the State in their charter capital, and its movement pattern over the last 5–6 years (*Table 2*).

In the structure of those JSCs where, as of summer 2015, *Rosimushchestvo* was not restricted in its shareholder rights, the aggregate share of those companies in respect of which the State enjoyed the right of corporate control at the level of a 100% stake or majority stake was approximately 2/3. Meanwhile, if we separate JSCs with state stakes amounting to less than 2% of the charter capital (373 units), the State would exercise corporate control over less than half of all JSCs.

Table 2

The movement and structure of the group of economic societies with state stakes (less those JSCs where the State holds the special right granted by 'golden share' without holding any stake) in 2010–2015

Date	Economic societies (JSC and LLC) where RF is shareholder (or participant)									
	total, units	share, %	Of these, with RF stake in charter capital amounting to							
			100%		100%		100%		less than 25%	
			units	%	units	%	units	%	units	%
as of January 1, 2010										

¹ It does not seem to be quite correct to place in one and the same group those JSCs where the ownership rights to state stakes are delegated to federal bodies of executive authority other than *Rosimushchestvo*, state corporations, and companies operated under a trust management agreement, because one of the basic features of a state corporation (SC) as a legal entity (defined by Russian legislation as a non-profit organization) is the right of ownership to its property, and, generally speaking, that right should also be exercised with regard to those state stakes that have been transferred to other entities as property contributions to their charter capital.

² In this connection it should also be added that another 181 JSC (vs. 137 JSCs a year earlier) whose financial and economic operations have not been conducted on a sustainable basis (because they are not engaged in a financial and economic activity or are entering the initial phase of bankruptcy procedures (have filed a petition in bankruptcy, undergoing the phase of supervision or external management)) belong to the category of JSC in regard to which *Rosimushchestvo* has been exercising an unrestricted shareholder right.

- JSCs, total ^a	2,950	100.0	1,757	59.6	138	4.7	358	12.1	697	23.6
as of August 1, 2012.										
- JSCs where <i>Rosimushchestvo</i> is not restricted in its shareholder rights ^b	1,371/ 2,629 ^a	100.0	886	64.6	76	5.55	211	15.4	198 ^d	14.45
as of January 1, 2013										
- JSCs, total ^e	2,337	100.0	1,256	53.7	100	4.3	227	9.7	754	32.3
as of August 1, 2013										
- JSCs where <i>Rosimushchestvo</i> is not restricted in its shareholder rights ^b	1,345/ 2,333 ^c	100.0	874	65.0	83	6.15	185	13.75	203 ^d	15.1
- JSCs included in forecast privatization plans for 2010 and 2013 ^f	975	100.0	716	73.4	41	4.2	116	11.9	102 ^d	10.5
as of July 7, 2014										
- JSCs where <i>Rosimushchestvo</i> is not restricted in its shareholder rights ^b	1,147/ 2,096 ^c	100.0	709	61.8	66	5.8	171	14.9	201 ^d	17.5
- JSCs included in forecast privatization plans for 2010 and 2013 ^f	842	100.0	596	70.8	36	4.3	113	13.4	97	11.5
as of August 1, 2015										
- JSCs where <i>Rosimushchestvo</i> is not restricted in its shareholder rights ^b	980/ 1,864	100.0	589	60.1	55	5.6	142	14.5	194	19.8
- same JSCs, plus JSCs where state stake is less than 2% ^g	1,353 (980 + +373)	100.0	589	43.5	55	4.1	142	10.5	567 (194 + +373)	41.9
- JSCs included in forecast privatization plans for 2010 and 2013 ^f	668	100.0	469	70.2	18	2.7	90	13.5	91	13.6
- same JSCs, plus JSCs where state stake is less than 2% ^h	1041 (668 + +373)	100.0	469	45.1	18	1.7	90	8.6	464 (91 + +373)	44.6

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

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

^c – denominator shows total number of JSCs entered in the Federal Property Register;

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

^e – number of JSCs according to the privatization program for 2014–2016;

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

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

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

Source: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2011–2013; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; 2011 Year-end Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share'); 2012 Year-end Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share'); 2013 Year-end Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share'); 2014 Year-end Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share'); own calculations.

In the group of JSCs included in the privatization program among those 668 companies where *Rosimushchestvo* was not restricted in exercising its shareholder rights on behalf of the State, approximately 3/4 appear were those fully owned by the State (70.2%) or those where the State held a majority stake (2.7%). As follows from the Report on the Management of Federal

Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share') prepared by *Rosimushchestvo*, the forecast privatization plan lists more than 80% of all 100% stakes, more than 63% of all blocking stakes, but only less than 47% of all minority stakes (between 2% and 25%) in those companies where *Rosimushchestvo* could exercise its shareholder rights on behalf of the State without any restrictions.

In the category of JSCs with controlling stakes, the share of those included in the privatization plan was approximately 1/3. Even if we count all the companies with a state stake amounting to less than 2% in their charter capital (373 units) those included in the privatization program, the number of minority stakes earmarked for privatization will be lower than the number of those enabling the State to exercise corporate control (100% stakes and majority stake, even less the latter).

Over one year (summer 2014 – summer 2015), the share of JSCs with a 100% state stake or a majority stake in the group of those where *Rosimushchestvo* was not restricted in exercising its shareholder rights shrank by 17%, in the same proportion as did the number of JSCs with a blocking stake, whereas the share of those with minority stakes (between 2% and 25% of charter capital) shrank by 3.5%. The difference becomes even more striking if we compare this movement pattern with the situation in summer 2012. While the number of JSCs with a minority state stake (between 2% and 25%) shrank by only 2%, the number of JSCs with a 100% state stake or a majority stake shrank by 1/3, similarly to the number of JSCs with a blocking state stake (between 25% and 50% of charter capital).

As for the public sector monitoring results released by *Rosstat*, this source is no longer available in accordance with Decree of the RF Government of January 29, 2015, No 72¹. This document deemed to be null and void the RF Government's Decree of January 4, 1999, No 1 (as amended as of December 30, 2002), whereby the public sector of the national economy was defined as consisting of the following entities (1) state unitary enterprises, including treasury enterprises, (2) state institutions, (3) economic societies where the State held a stake amounting to more than 50% of their charter capital, and (4) economic societies where a stake amounting to more than 50% of their charter capital was held by economic societies belonging to the public sector of the national economy.

The system of performance estimates introduced by the aforesaid Decree in 2015 for the purpose of monitoring the efficiency of public property management and deriving relevant statistics is to be applied to the following group of economic subjects (in place of the public sector):

- state unitary enterprises, including treasury enterprises;
- state institutions (autonomous, budget-funded and treasury-funded);
- economic societies with a state stake in their charter capital;
- joint-stock companies where the State holds the special right to participate in their management granted by the 'golden share').

While the newly emerged group is seemingly the same as the 'public sector' in the previously applied definition, one cannot but notice the disappearance of one important component of the public sector, namely economic societies where a stake amounting to more than 50% of their charter capital is held by economic societies belonging to the public sector of the national economy.

¹ The final statistics bulletin with data on the public sector's development was released in autumn 2014. Also see *Russian economy in 2014. Trends and Outlooks* (Issue 36). M., Gaidar Institute, 2015, pp. 377–378.

Essentially, the system to be applied in estimating the management of public property and deriving relevant statistics of 64 indices grouped into 5 sections as follows:

I. The structure of economic subjects comprising public property (with records to be kept separately for the RF and RF subjects);

II. The management of JSCs with stakes in federal ownership, federal state unitary enterprises (FSUE) and federal state institutions (FSI) (with records to be kept separately for the 3 subsections);

III. Privatization of federal property entities;

IV. Management of federal immovable property entities (with records to be kept separately for the two subsections: land plots and other property entities);

V. Redistribution of federal immovable property, including redistribution between different tiers of public legal formations.

Besides, the aforesaid RF Government's Decree introduced the necessary alterations into the 2008 Federal Statistics Plan, and then the RF Ministry of Economic Development approved, as of April 16, 2015, No 229 the Methodological Recommendations for calculating the state property management performance indices and keeping statistical records.

Naturally, it will be possible to make valid conclusions concerning the relevance of all these innovations for estimating the share of the public sector in the Russian economy only after the statistics in the new format are released¹.

6.1.2. Privatization policy

The past year was the second year of the implementation of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, approved by Directive of the RF Government of July 1, 2013, No 1111-r. This is already the second 3-year privatization program developed with a view towards a longer planning period established for a forecast plan (or program) of federal property privatization (extended from one to three years) on the basis of the alterations introduced into the prevailing legislation on privatization in the spring of 2010.

As was the case with the previous privatization program, numerous adjustments and alterations soon began to be introduced into the new document as well. Since the moment of approval of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016 and until early February 2016, a total of 65 normative legal acts (NLA) pertaining to these issues were adopted, 22 of which were issued in 2014, and then 3 more were issued in December 2013, and 3 in January 2016. By the first directive, the privatization program was augmented by another 431 joint-stock companies that had not been privatized in the period 2011–2013; by the second one, 426 (mostly) immovable property entities in federal ownership (previously non-privatized) were also added to the list of entities earmarked for privatization. So, last year, in terms of 'intensity' of legislation adjustment (37 NLA), is far ahead of the previous one-and-a-half-year period (2014 and H2 2013).

As a result, the list of assets earmarked for privatization in an ordinary procedure noticeably increased. The highest share was taken up by entities to be privatized in the category of 'other' property entities, their number in the privatization program rose from 94 to 1,562 (or nearly 17 times), while the number of economic societies rose from 440 to 977 (or more than 2.2-fold).

¹ For a more detailed discussion of the theoretical aspects and core problems associated with the role of commercial organizations owned by the State, see Radygin A.D., Simachev Yu. V., Entov R. M. *State-owned company: detection zone of government failure or market failure? Issues of Economics* (in Russian), 2015, No 1, pp 45–79.

Meanwhile, the number of federal state unitary enterprises (FSUEs) earmarked for privatization, on the contrary, dropped from 514 to 491 (or by 4.5%).

Unitary enterprises represent an asset that is most likely to be taken off the privatization program at any time. In 2015, there were a total of 46 units in this category (vs. 31 in 2014), while the number of economic societies excluded from the program was 19 (vs. 5 in 2014), and that of 'other' property entities – only 12.

Although the progress of the privatization program is obviously influenced by the current macroeconomic situation and the situation in the stock market, the intermediate results of the past year (as estimated by the results of its first quarters) made it possible to hope that the targets set in the current privatization program can be achieved, meaning the exact privatization-generated revenue target in the federal budget, less biggest property sales (Rb 3bn per annum).

In this connection, in September 2015, *Rosimushchestvo* was assigned the task of increasing the annual revenue generated by privatization deals from Rb 3bn to Rb 5bn. As of November 11, 2015, asset sale deals to the total value of Rb 5.5bn (111% of that year's target) were completed, so the target was achieved earlier than planned¹. Nevertheless, the total value of sales of shares declined in 2015 on 2014 by 8.5% (Rb 7.34bn vs. Rb 8.02bn)

At the same time, no sale of shares in biggest companies, in respect of which the specific timeframe and method of privatization are to be determined by the RF Government with due regard to the market situation and to the recommendations of top investment consultants, took place that year. The only possible deal - the alienation of shares in PJSC *Sovkomflot* [Modern Commercial Fleet] - was postponed due to the worsening macroeconomic situation and low investment activity on the domestic market, as well as the currently unfavorable situation in the tanker shipping market and the introduction of restrictive measures against big Russian companies.

On the whole, the number of sales of state stakes and immovable property entities rose on 2014 by 35%, while the number of property entities put up for sale in the framework of privatization deals by independent sellers nearly doubled (increasing from 159 in 2014 to 306 in 2015).

Among the deals accomplished without relying on investment consultants, the sale of Murmansk Sea Fishing Port (the entire 100% stake) for Rb 1,027bn clearly stands out. The other big privatization deals are the sales of state stakes in the Moscow-based company JSC *Aviatechnab* (for Rb 986m), JSC Murmansk Shipping Company (25.5%, to the value of Rb 660m), *Fundamentproekt* (Rb 454.8m) and E. I. Rytvin Scientific and Industrial Complex *Supermetal* (Rb 307m) (both in Moscow), *Labinsky* Poultry Breeding Farm (Krasnodar Krai, Rb 303.3m), and one of Moscow's Bread Baking Plants (Rb 216.4m). The stakes in JSC *Northern Shipping Company* (20%, based in Arkhangelsk) and 2 road maintenance enterprises in Moscow Oblast were sold to the value of more than Rb 150m each. In this connection it should be noted that the stakes to be sold in almost all these deals, with the exception of stakes in the two shipping companies (the size of which is specified), amounted to 100% of charter capital, and the deals were closed by an independent (non-governmental) seller, OJSC *Auction House of the Russian Federation* (OJSC *RAD*).

The year 2015 can be described as the first year when non-governmental sellers began to be active in the market, and for a good reason. Thus, OJSC *RAD* sold 34 stakes to the total value of Rb 5.3bn, or more than 72% of total proceeds from sales of this type of assets, which is more

¹ www.rosim.ru, November 12, 2015.

than the aggregate index for the two previous years¹. Another non-governmental seller, LLC *VEB Capital*, also launched its operations, although the scale of its involvement in the privatization program is incomparable with that of OJSC *RAD*².

Another innovation aimed at boosting the efficiency of handling sales is the delegation, by *Rosimushchestvo*, of some of its powers in the framework of the privatization program to its territorial agencies (TA)³ which, as far as the number of state stakes actually sold by them is concerned (51 units), got far ahead of both OJSC *RAD* (34 units) and *Rosimushchestvo*'s central apparatus (CA) (18 units). However, when compared to 2014, this privatization channel still demonstrates a downward trend in terms of the number of accomplished sales (51 vs. 74) and generated proceeds (Rb 0.9bn vs. Rb 1,360bn). In this connection it should be noted that the results achieved by *Rosimushchestvo*'s CA are even less impressive, as it sold only 18 state stakes (vs. 29 in 2014) to the value of Rb 1.1bn (vs. Rb 5,772bn in 2014). Due to such a sharp decline of proceeds, the relative shares of *Rosimushchestvo*'s CA and TAs with regard to this index became comparable in 2015. In effect, the operation of independent sellers offset the effects of the declining activity of the government agencies in implementing their privatization policy⁴.

Among the optimization measures attempted by *Rosimushchestvo* in order to boost efficiency, increase openness, and improve performance in the framework of privatization procedures, we may also note the following ones:

- to involve in more active promotion of the assets earmarked for privatization in order to boost market demand, by posting information on forthcoming biddings to websites www.avito.ru, www.irr.ru, to the news feeds of the major news agencies ITAR-TASS and RIA *Novosti*, placing promotion leaflets in the mass media and as out-of-home advertising, distribution of printed ads at Russian and international business forums and other events (depending on the type and value of each asset to be privatized);

- to make the process more comfortable for potential investors by granting free access to additional information concerning the properties earmarked for privatization (special presentations for potential investors and their publication on the Internet, and placement there of detailed information on the assets held by the economic societies to be privatized, as well as copies of the relevant documents in confirmation of the titles to these assets);

- to increase the period of market exposure of the assets earmarked for privatization (the time lapse between the offer of a given asset and the date of bidding) by creating at *Rosimushchestvo*'s website special 'soon to be sold' pages and placing there, in advance, in the phase of their market valuation and preparatory procedures, detailed information on each of the assets to be privatized);

- to toughen control over the financial and economic status of the joint-stock companies earmarked for privatization, so as to prevent any loss of their market value and attractiveness for potential investors in the pre-privatization phase by issuing a special set of instructions (directives) for their board of directors and recommendations for audit commissions (quarterly monitoring of financial and economic activity);

¹ In 2014, OJSC *RAD* sold only 6 stakes to the total value of Rb 923.3m, and in 2013 – 15 stakes to the value of Rb 1.97bn.

² While *VEB Capital* received state stakes in only 11 OJSCs for their subsequent sale, OJSC *RAD* was given state stakes in more than 200 JSCs and 81 immovable property entities, although no bidding took place with regard to the latter.

³ In 2014, the TAs were delegated the powers to sell state stakes in 200 JSCs and 219 'other' property entities.

⁴ www.rosim.ru, December 24, 2014, February 24, 2016.

– the creation of a special system for protecting the assets of companies to be privatized during the privatization and pre-privatization periods as an additional guarantee that the quality of assets offered to potential investors will not deteriorate, by restricting the powers granted to the CEOs of those companies with regard to disposal of their property and by increasing personal responsibility for the decision-making process through introducing provisions to this effect into the charters of all JSCs earmarked for privatization.

In 2015, the stakes (or shares in charter capital) in a total of 103 economic societies were sold, while in respect of 35 federal state unitary enterprises (FSUE) the relevant decisions concerning the terms of their privatization were taken. On the whole, such results follow the overall trend of recent years - the constant reduction in the number of sold stakes (or participatory shares). As for the progress of privatization of unitary enterprises, if we rely on the number of those of them that were subject to specially issued directives concerning the terms of their privatization, the observed trend is compatible with the corresponding indices for the last two years of the previous privatization program (2012–2013) (see *Table 3*).

Table 3

The movement of the number of privatization deals involving federal state unitary enterprises and the number of sales of federal stakes in 2009–2015

Period	Number of privatized enterprises (entities) formerly in federal ownership (data released by <i>Rosimushchestvo</i>)	
	privatized FSUEs ^a , units	sold stakes in JSCs, units
2009	316+256 ^b	52 ^c
2010	62	134 ^c
2011	143	317 ^d /359 ^c
2012	47 ^d	265 ^e
2013	26	148 ^e
2014	33	107
2015	35 ^f	103

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

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

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

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

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

^f – for 2 enterprises, the decisions concerning the terms of their privatization canceled in 2015 and then reissued, and so the total number of FSUEs for which privatization decisions were made over the 2-year period (2014–2015) is somewhat lower than follows from the data shown in the Table (65).

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

At the same time, compared to the year-end results of the crisis year 2009, which are roughly comparable to the situation under consideration (stakes in 52 economic societies were sold to the value of Rb 1.37bn), we may conclude that the privatization process in 2015 was more successful (stakes in 103 economic societies were sold to the value of Rb 7.34bn). *Rosimushchestvo* explains this success by the systemic changes in the privatization procedures applied to federal property entities and the implementation of comprehensive measures designed

to ensure the pre-sale preparation and proper management of the assets to be privatized. However, in this connection necessary to remember that inflation had surged since then nearly 1.5 times, that in 2009 more than half of the sales involved minority state stake, and that no non-governmental sellers participated in the privatization process.

In recent years, the purpose of involving non-governmental sellers was that of boosting the number of sales, because it was expected that a seller working for a commission calculated as a percentage of the value of a deal and received from the budget, must necessarily be competent in marketing and possess the skills necessary for attracting investors. Based on this assumption, one could expect that a higher number of participants will take part in the biddings held by the independent non-governmental seller, and that prices will surge higher in the course of bidding. However, the statistics concerning the operation of non-governmental sellers in 2015 was by no means always indicative of such achievements. The effectiveness index of property sales, measured as cumulative growth of asset value during an auction, was found to be lower for OJSC *RAD* than for *Rosimushchestvo* (growth by 11% vs. 17%), in spite of the fact that some relatively liquid assets from among the properties listed in the privatization program were handed over to the non-governmental seller.¹

In this connection it should be mentioned that some of these sales gave rise to big scandals. The most notorious was the cancellation of bidding for the 100% state stake in the Training & Testing Dairy Plant (*UOMZ*) under N.V. Vereshchagin Vologda State Dairy Academy (Vologda Butter™) and the suspension of the auction involving the sale of the state stake in OJSC *Diamond World* (52.37%). In the latter case, an arbitration court ruled that special measures should be enforced to protect the company's private shareholders. Besides, the starting price of the relevant state stake also appeared to be underestimated.

Problems also arose in connection with some other deals handled by OJSC *RAD*, due in the main to the resistance of regional authorities: the sale of Murmansk Sea Fishing Port (the biggest deal, according to the year-end results of 2015) and JSC *SIC Supermetal*, the privatization of the latter having been previously suspended by *Rosimushchestvo* (more than 40 state stakes were suspended out of a total of 204 transferred to OJSC *RAD* for sale); the sales of the Saratov Polygraphic Combine and *Sverdlovskavtodor* set for Q1 2016.²

The most notorious case is that of the Training & Testing Dairy Plant (*UOMZ*) in Vologda, which put to light many problematic aspects of Russia's privatization process: the feasibility of selling one or other asset currently held by the State, its objective valuation, transparency, coordination of the interests of the parties in a deal. In this particular case, it was the regional authority who, with public support, opposed the privatization deal. Their arguments were as follows: that the enterprise was profitable; that it was implementing an investment program; that its privatization might entail rising unemployment and production reorientation, loss of the traditional product recipes and its unique brand; and the loss of a base for training qualified personnel. So, in the spring of 2015, the sale was canceled. However, in early 2016, OJSC *RAD* made another attempt at its sale, which was contrary not only to the clearly proclaimed standpoint of the regional authority, but also to that of some federal bodies of executive authority (*Rosimushchestvo*, the RF Ministry of Agriculture, etc.). The upshot of all this was that the sale was canceled once again, and it was declared that an investment consultant will be selected in

¹ The performance level assessment of non-governmental sellers participating in the implementation of the privatization program compared to that of the model procedures followed by government bodies must rely on information concerning the amount of commission paid to the former.

² Pushkarskaia A., Butrin D. *Rosimushchestvo lacks courage*. Kommersant, January 14, 2016.

order to determine the key conditions and elaborate the structure of a potential deal, so as to attract strategic Russian investors and enforce the terms whereby no production reorientation may be attempted¹.

On the whole in 2015, stakes (or shares in charter capital) in 462 economic societies were put up for sale, of which stakes (or shares in charter capital) in 103 economic societies were actually sold, vs. 341 and 107 respectively in 2014. The results for stakes in another 85 JSCs put up for sale are to be summed up in Q1 2016. Thus, due to the shrinking investment demand for properties earmarked for privatization in response to the high volatility of financial markets and rising lending costs, the share of accomplished sales of all types declined in 2015 on 2014 from 31% to 22%, which means that on the average, only one of every five stakes put up for sale were actually sold.

In many cases the low interest of potential buyers in privatization auctions can be explained by their hope to buy properties put up for sale in the framework of a public offer at a 50% discount, which is the main method employed in secondary sale deals. In the crisis situation, the expectation that the number of participants in bidding may increase (as the principal precondition for asset prices to achieve equilibrium - something that in theory could indeed happen after such a deep plunge) proved to be futile. As a result, the stakes in 92% of public offer deals were sold at a minimum price, i.e. at half their market value.

When, in 2015, nearly 1.200 immovable property entities were added to the group included in the privatization program, the entire structure of property earmarked for privatization was changed, in that the privatization of stakes in economic societies acting as owners of property complexes was replaced by privatization of singular immovable property entities.

Compared to 2014, this segment has demonstrated some noticeable shifts. The number of sold immovable property entities (38 units) increased on 2014 by approximately 3.5 times (vs. 11 units in 2014). However, the amount of proceeds of these sales to be transferred to the federal budget in 2015 was nearly the same (Rb 48.92m vs. Rb 47.46m in 2014). These sales were more successful than the sales of stakes in JSCs. Over the course of 2015, out of the 81 immovable property entities put up for sale, about half were actually sold (38 units), the total number of biddings being 118. The results for stakes in 20 entities put up for sale in the category of 'other property's are to be summed up in Q1 2016.²

In 2015, in the framework of execution of 24 executive orders of the RF President and 5 decisions of the RF Government concerning the creation/expansion of vertically integrated structures (VIS), *Rosimushchestvo* implemented a broad array of relevant measures and established 18 VIS, of which all the necessary formalities had been completed for 10. This part of the 3-year privatization program includes 40 FSUEs and state stakes in 129 JSCs. By the end of 2015, decisions were also issued with regard to the terms of privatization of 20 FSUEs (including for 9 in 2015) and 122 JSCs (including for 75 in 2015).

The Federal Law on the Federal Budget for 2016 (No 359-FZ) adopted in early December 2015, similarly to the corresponding law approved a year earlier, contains no specific information as to the amount of revenue to be generated by privatization deals neither in the main body of the document, not in the annexes. Only in the explanatory note attached to the text of the draft law submitted to parliament it was stated that the revenue generated by privatization

¹ www.rosim.ru, February 12, 2016.

² For further reading on these issues, see Malginov G., Radygin A. Management of state treasury properties in the Russian Federation: some actual trends. *Economic Policy*, 2015, V. 10, No 4, pp. 20–46.

of federal properties was to be treated, alongside government borrowings, as an independent source of funding to cover federal budget deficit.

Due to the fact that currently the forecast plan (program) of federal property privatization for 2014–2016, approved by Directive of the Government of the Russian Federation of July 1, 2013, No 1111-r, is not yet completed, the switchover to a one-year budget planning cycle will not require any adjustment of the timelines set for the three-year privatization program, as it will be over exactly in one-year period. In this connection, the timelines and specific privatization methods to be applied to biggest companies - leaders in their industries will be determined by the RF Government with due regard for the current market situation, as well as the recommendations of eminent investment consultants.

The important distinctive feature of this draft law from similar documents submitted over the previous years was the attachment, among the other supplementary materials, of data for the forecast plan (program) of federal property privatization for 2016, where the targets for federal budget revenues generated by privatization deals are presented; besides, they are presented in the explanatory note attached to the draft law and in the classification of sources of funding to cover federal budget deficit.

The total sum to be generated by this source in 2016 is to amount to more than Rb 33.2bn. In this connection it is worthwhile to note the secondary role assigned to the revenue generated by privatization as a source of funding to cover federal budget deficit. Thus, in 2016, the expected privatization-generated revenue will amount to approximately 8.5% of the total sum of government borrowing.

It is planned that approximately 36% (or Rb 12bn) of the total planned revenue generated by privatization (in the amount of Rb 33.2bn) will result from the alienation of state stakes in PJSC (Public Corporation) *Sovkomflot* (reduced to 25 % minus 1 share). The functions of the organization and completion of this deal in accordance with Directive of the RF Government of September 20, 2012, No 1739-p will be executed by Deutsche Bank LLC. In this connection, more than 60% in the total amount of revenue generated by privatization (or more than Rb 21.2bn) is expected to be taken up by proceeds of sales of federal property entities, not counting the value of stakes in biggest companies.

However, this revenue target does not appear to be very realistic. It should be reminded that, in the forecast plan (program) of federal property privatization for 2014–2016, the target for federal budget revenue to be generated by federal property privatization is set with no account for the value of stakes in biggest companies (expected to generate Rb 3bn per annum. And in the first three-year privatization program for 2011–2013 this target was set at Rb 6bn for 2011 and Rb 5bn for 2012–2013 (per annum) (a total of Rb 16bn).

In actual practice, from the moment when the period of the forecast plan (program) of federal property privatization was extended to 3 years, this index rose above Rb 10bn only in 2011, when it amounted to Rb 13.3bn. In fact, the target amount of budget revenue of Rb 21.2bn to be generated by privatization in 2016 (less revenue generated by biggest deals) is comparable with the corresponding index for the entire 3-year period of the implementation of the privatization program for 2011–2013, when the federal budget received Rb 25.67bn, or 160% of the target set in that document. However, this result was achieved within the framework of an economic and political situation that was radically different from what we have been experiencing over the course of two recent years (large-scale capital outflow, the introduction of economic sanctions, the ruble's plummeting exchange rate, and the probability of recession in the national economy).

The target for federal budget revenue to be generated by federal property privatization appears to be even more dubious in view of its forecasted structure, where biggest deals are expected to generate only less than half of the revenue to be received from that source. Meanwhile, according to the year-end results of 2014, the total value of the 2 deals completed on the basis of special decisions RF Government (the sale of a 13.76% stake in OJSC *Inter* RAO EES and 100% stake in OJSC *Arkhangelsk Trawl Fleet* (ATF) (100% of shares) amounted to Rb 20.9bn, which is more than 2.5 times above the ordinary amount of revenue generated by model privatization procedures (Rb 8.05 bn).

Among other things, it should be reminded that the current privatization program for 2014–2016 sets no target for the bulk of revenue to be received as a result of sale of stakes in biggest companies with a high investment attractiveness index, in the event of issuance of a special decision to this effect by the RF Government; meanwhile, the previous document set the target of Rb 1 trillion for the period 2011–2013.

However, the mechanism currently applied in the budgetary process, when the approved text of a budget law contains no stipulations concerning the effect of privatization in the context of budget revenue, opens up unlimited opportunities for any decision-making with regard to privatized assets and the timelines and format for their sale. The developments observed over the past year and in early 2016 have confirmed this assumption. It is suffice to point out the instance of JSC *Rusnano* being excluded from the current privatization program in April 2015 and the privatization issues associated with medium-sized public assets of regional importance, mentioned earlier in our discussion.

The evident difficulties experienced by the budgetary system prompted the decisions concerning the expansion of the privatization program in early 2016 and the potential for generating revenue from privatization in an amount up to Rb 1 trillion. The candidates for the privatization of part of their state stakes were *Alrosa*, *Bashneft*, VTB, Rostelecom, Transneft, Aeroflot, Rosneft, *Sovkomflot* and some other biggest companies; however, the prospects for and format of each of these deals are still unclear.

The comprehensive work that was underway throughout 2015 to implement the necessary measures designed to consolidate the assets of Vnukovo and Sheremetyevo airports is an important phase in their pre-privatization preparation in the context of decisions of the RF President and the Government concerning the strategic development of Moscow's airport system based on the principle of public-private partnership (PPP).

The structure and stages of the consolidation of airport assets of Vnukovo and Sheremetyevo, elaborated in cooperation with investment consultants and private shareholders, were in 2015 approved by Executive Orders of the President of August 1, 2015, No 393 and of August 28, 2015, No 442 respectively.

OJSC *Sheremetyevo International Airport* (SIA) will be reorganized by merging it with JSC *Sheremetyevo*, to be founded jointly by the State and a private shareholder, LLC *Sheremetyevo Holding*, its charter capital made up by the contribution, by the Russian Federation, of its stake of more than 83% in JSC SIA, and the contribution by the private shareholder of its property; meanwhile, the participation of the State in the charter capital of the new company, JSC *Sheremetyevo Airport* (without any additional property contribution), is to be secured by a stake amounting to no less than 30%. For this purpose, the RF Government together with the private shareholder are to determine the composition of property to be contributed by the latter to the new JSC's charter capital, and to ensure valuation of that property in accordance with existing legislation, as in the case of valuation of federal property to be contributed as a RF stake to the charter capital of JSC *Sheremetyevo Airport* at the moment of its founding. This is to be the

basis for determining the size of the stakes to be held by the State and the private shareholder in the charter capital of JSC *Sheremetyevo Airport*.

Besides, it was envisaged that a shareholder agreement should be concluded between the RF and the private shareholder, whereby the procedure for executing the rights secured by the stakes in JSC *Sheremetyevo Airport*, including the private shareholder's responsibility to abstain from alienating of its shares in JSC *Sheremetyevo Airport* until the termination of that joint-stock company as a result of its reorganization, the procedure for executing the rights secured by shares in JSC *SIA*, and the ownership rights to such shares should be determined¹.

Based on the results of JSC *SIA*'s reorganization, new alterations to the list of strategic organizations should be prepared with regard to the size of stake to be held by the State in the charter capital of JSC *SIA* in the new format. The new floor for the state stake after the charter capital of JSC *SIA* is increased by means of an additional issue (or issues) of shares after its reorganization is set at 30%, without any additional property contribution by the RF.

The scheme to be applied to JSC *Vnukovo International Airport* is somewhat similar. By way of covering the cost of additional shares issued in order to increase its charter capital, the stake held by the State in OJSC *Vnukovo Airport* (74.74%) will be contributed to the charter capital; its size (without any additional property contribution), with due regard for the size of stakes contributed by the private shareholders, should be no less than 25% + 1 share. The procedures of property valuation and the terms of the shareholder agreement with private shareholders are in many ways identical to those applied to JSC *SIA*, except that there were no responsibilities assigned to private shareholders to put in operation new facilities, and no entry of this airport onto the list of strategic organizations. Besides, in contrast to the norms stipulated for JSC *SIA*, the Executive Order of the President appoints no particular organization to act as a private shareholder.

In February 2016, the relevant shareholder agreements between the State and private shareholders were signed, whereby the airport assets at Sheremetyevo and Vnukovo were consolidated so as to secure for the State the right of control over the activity of the merged company and key decision-making. On the basis of valuation of the property contributions by each of the stakeholders, the state stake in the charter capital of JSC *Sheremetyevo Airport* will amount to about 31.6%, and that in the charter capital of JSC *Vnukovo International Airport* – 25.1%, which means that a symbolic excess over the government corporate control threshold will be secured in advance². However, due to the intricacies of such a scheme, it is unlikely that budget revenues can be expected any time soon from a possible sale of shares currently held by the State, although such a possibility cannot be ruled out altogether because the shareholder agreements do stipulate the option of buying out the state stake, alongside various valuation alternatives and premiums for the buyer.

Shares in OJSC *Rosneft*, which have been thoroughly prepared for sale, can generate revenues in the event of the company's privatization that can be transferred to the federal budget as dividends of OJSC *Rosneftegaz*.

However, the main obstacle to success here is the situation in the stock market. The RF President and the RF Government's decisions made in 2014 do allow the alienation of those shares at a price no lower than their market price determined on the basis of a market valuation

¹ It is also envisaged that an important part of the shareholder agreement should be the obligation assumed by the private shareholder, to construct infrastructure for the new terminal in the northern zone at *Sheremetyevo*, in preparation for the 2018 FIFA World Cup in Russia.

² www.rosim.ru, February 15, 2016, February 29, 2016.

report prepared by an independent valuator, and no lower than the price of their initial public offer in 2006, which is twice as high as the quotes of *Rosneft's* shares in early 2016.

The standpoint of OJSC *Rosneftegaz*, which owns 69.5% of shares in OJSC *Rosneft*, is that it is prepared to continue the cooperation with its strategic partners in doing the necessary preparatory work for the forthcoming privatization deal, while orienting to the even higher price at which the shares formerly held by the State had been sold to *BP* in 2013. The compliance with the requirement concerning the price floor can be possible in the medium-term perspective if proper conditions are created for boosting the market value of shares in OJSC *Rosneft*.

At present, the decision that the state stake in PJSC (Public Corporation) *VTB Bank*, which is entered on the List of Strategic Organizations, should be reduced to 45% in February 2016 can be regarded as an indirect indication of the privatization program's further expansion. In this connection it should be reminded that a similar decision regarding *VTB* was already made previously, in 2006, when the government corporate control threshold was moved down from a nearly 100% stake (99.9%) to 50% + 1 share. Thereafter, the size of state stake continued to consistently shrink: initially in the form of the so-called 'people's IPO' in 2007, and then the sale of 10% of shares for Rb 95.68bn in 2011.¹ And finally, as a result of an additional issue to the value of Rb 102.5bn in 2013, its size shrank from 75.5% to 60.93%.

Meanwhile, the current privatization program envisages a shrinkage of the state stake in *VTB* to 50% + 1 share, and any further movement below this threshold should be coordinated with the measures designed to diminish the government's participation in *Sberbank of Russia's* capital.² However, in *Rosimushchestvo's* commentaries on this issue it is stated that the shrinkage of the state stake has been caused by the necessity to make the size of state stake (as envisaged in the List of Strategic Organizations) compatible with that of the existing state as it emerged after the completion of the purchase, by State Corporation *Deposit Insurance Agency (DIA)* of a big chunk of preference shares in *VTB*. As a result, the total stake held by the State, including the share held by the RF Ministry of Finance, amounts to 45.01% of its charter capital. The State, represented by *Rosimushchestvo*, retains its right of corporate control through its bundle of voting shares³.

As for another two companies named among the candidates for privatization, these are noteworthy for their involvement in the relations between the federal center and the regions.

JSC *Bashneft*, the bulk of its capital previously held by SSA *Sistema JSFC*, last year was transferred, by a court ruling, back to federal ownership.⁴ It was placed on the List of Strategic Organization with a federal stake of 50% + 1 share. The rest of its capital (25% + 1 share, including some preference shares) was transferred to regional ownership,⁵ on condition that the Russian Federation and the Republic of Bashkortostan conclude a shareholder agreement,

¹ The first deal completed with the participation of investment consultants (*Merill Lynch Securioties*) took place after the approval, in May 2010, of amendments to the law on privatization whereby it was allowed to sell certain assets on conditions determined by the RF Government.

² It is interesting that the annexes to the 2015 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016 contain information on the sale, in an open auction, of shares in *Sberbank of Russia* to the value of Rb 21,225m without any rise on the starting price. The actual size of the stake relative to the charter capital is not specified, as it is not specified in the current privatization program (only the number of shares, in units).

³ www.rosim.ru, February 8, 2016.

⁴ See the IEP's previous annual overview *The Russian economy in 2014. Trends and outlooks* (Issue 36). M., Gaidar Institute, 2015, pp. 393–394.

⁵ www.rosim.ru, July 3, 2015.

whereby the procedure for executing the rights secured by shares in JSC Bashneft and the ownership rights to those shares with due regard for the requirements stipulated in Russian legislation, including the regulatory procedure of managing and disposing of stakes held by the State, was determined¹.

A sort of precursor to this document was the agreement of major shareholders in OJSC *Alrosa*, signed in autumn 2013 soon after the successful placement, by an international public offer, of its shares on the MICEX (7% of shares held by the RF, 7% held by the Republic of Sakha (Yakutia), and another 2% controlled by the company itself). The agreement reflects the strategic goals of the government to retain a controlling stake in state ownership, as well as the interaction mode between the Russian Federation and the Republic of Sakha (Yakutia) in exercising corporate governance of OJSC *Alrosa*. The shareholder agreement is concluded for the period of 5 years, with the possibility of its auto-prolongation.

The mandatory requirements for conducting the deals of sale of public assets, as they were put forth by this country's political leaders, will make it very difficult to proceed with privatization in the foreseeable future in view of the existing macroeconomic conditions.

These are as follows: (1) strict compliance with the norms stipulated in legislation when completing privatization deals, (2) retaining government corporate control over system-forming companies, (3) budget efficiency and avoidance of asset sale at throwaway prices, (4) topmost priority should be given to 'quality owners' who must possess not only a good business reputation and experience, but offer a development strategy for the company being purchased, (5) the new owners must be subject to Russian jurisdiction, there should be no 'gray schemes' or withdrawal of assets to offshore zones and concealment of their real owners, (6) the use, by buyers, only of their own means or loans issued by private banks².

The issue of finding the sources of funding necessary for participating in privatization deals is self-evident. Russian businesses are now faced with an economic slump, the need to pay their foreign debts and implement the ongoing investment projects, and many other problems. The imposed economic sanctions restrict the inflow of foreign capital to Russia's stock market. However, more problems are associated with the desire of many investors to gain control over the companies and their financial flows, their strong incentives to a prompt resale, their tendency to be more interested in natural resources and infrastructure as the least risky (and in some cases guaranteed) sources of future profits compared to investment in the development of industries unrelated to raw materials extraction - the latter being the necessary precondition for successful import substitution and export diversification.

The issue of de-offshorization does not lose its importance, as demonstrated by the prolongation of the period of amnesty for Russian individuals returning capital to Russia. The orientation of authorities to preventing asset outflow is substantiated by the new draft law envisaging a ban on participation in the privatization of offshore companies and companies controlled by entities situated in offshore zones, as well as endowing the relevant agencies with the right to

¹ This document was signed in mid-September 2015. The federal center and RF subjects assumed the responsibilities to coordinate the execution of shareholder rights during voting at a general shareholder meeting and the functions of the board of directors relative to the key issues of running the company (the approval of its strategy, its budget, the size of dividend amounting to no less than 25% of net profit, major deals, personnel appointments, etc.), as well as the responsibilities relative to disposal of shares. www.rosim.ru, September 16, 2015.

² www.rosim.ru, February 2, 2016.

check the applicants for participation in privatization deals and the documents submitted by them by criminal investigation methods.¹

6.1.3. Improvement of legislation on privatization

In 2015, by five federal laws (introduced in April, June, July and December 2015), numerous alterations and amendments were made to the current law on privatization, adopted as of 2001.²

Firstly, throughout the text of the law, the term open-ended joint-stock companies is replaced by joint-stock companies. This is the upshot of the enactment, from September 1, 2014, of alterations to Part One of the RF Civil Code, introduced by Federal Law of May 5, 2014 (No 99-FZ), whereby the differentiation of joint-stock companies (JSC) into close-ended and open-ended ones was abolished, and a separate group of 'public societies' (JSCs), i.e. those whose shares and convertible securities are placed as a public offer (by open subscription) or circulate publicly on conditions established by the laws regulating the securities market³. In its previous version, the Law envisaged, as a method of privatization, only the reorganization of a unitary enterprise into an open-ended joint-stock company (OJSC), and from 2011 onwards - also into a limited liability company (LLC).

Another fundamental alteration was the introduction of a more precise definition of a transfer by way of compensation, as one of the basic principles of privatization (Article 2). The previously applied definition implied a transfer of property by way of alienation for a compensation, or a transfer to state or municipal ownership of shares in those joint-stock companies where state or municipal property was to become a state stake in the charter capital. Now, these forms of property transfer are augmented by a transfer of shares or stakes in the charter capital of economic societies created as a result of reorganization of state or municipal unitary enterprises. The motive behind this alteration is not quite clear, because in actual practice this had been done before the introduction of this legislative provision. Probably its purpose is to coordinate the specific procedure of reorganization of unitary enterprises with the legal backing for the entire privatization process and the mechanisms applied therein.

Secondly, the property segment that is not subject to the law on privatization has been further expanded (Article 3). Now this segment consists of 20 categories.

In 2015, it was augmented by the category of securities traded in organized biddings held in accordance with Federal Law of November 21, 2011 (No 325-FZ) and the RF Government's decisions. The upshot of this innovation was that the sale of shares in OJSC on a stock exchange (in the initial wording of the law – through a trade organizer in the securities market) was taken off the list of permitted privatization methods. In this connection it should be reminded that the transaction category previously taken off that list at the very end of 2014 was the transfer of property to the ownership of an asset manager as a property contribution by the State (including

¹ *Currencies' deceit*. Interview with Chairman of the RF Investigative Committee Alexander Bastrykin. *The Russian Newspaper*, January 15, 2016, No 6 (6874), pp. 1, 9.

² For further details on the newest alterations to privatization legislation introduced after the issuance of that document see Radygin A. D., Entov R. M., Malginov G. N. et al. Privatization in the modern world: theory, empiricism, "a new dimension" for Russia. Ed. A. D. Radygin. In 2 vols. (In Russian). M., Delo, RANEPa, 2014, pp. 191–220; *The Russian economy in 2013. Trends and outlooks* (Issue 35). M., Gaidar Institute, 2014, pp. 403–404; See the IEP's previous annual overview *The Russian economy in 2014. Trends and outlooks* (Issue 36). M., Gaidar Institute, 2015, pp. 389–393.

³ The rules on public societies also apply to those JSCs whose charter and name reflect their status of a public society.

at the regional and municipal levels) in the procedure established by Federal Law 'On the Areas of *Russia's Priority Socioeconomic Development*' of December 29, 2014 (No 473-FZ)¹.

Besides, another 3 property categories, which are listed in the Law and not subject to the provisions stipulated in the privatization law that provided the basic framework for the privatization process, are defined in a more detailed way.

The category of state corporations (SC) and not-for-profit organizations (NPO) created as a result of reorganization of unitary enterprises and state institutions has been augmented by 'other' NPOs, and regions and municipalities, alongside the Russian Federation, are now directly defined as subjects endowed with the right to make property contributions to these entities.

The category of shares in a joint-stock company (JSC) and convertible securities, in the event of their buyout in the procedure established by the 1995 law on joint-stock companies (Article 84.8), was augmented by shares and securities specified in another 2 articles of that law (84.2 and 84.7).

The first article stipulates that the buyer of more than 30% of the total number of shares (including affiliated entities) is obliged to come forth with the offer of purchase of shares in a public society, as well as other issued convertible securities. The second one envisages that the buyer of more than 95% of shares in a public society is obliged to buy out the other stakes in that society held by other entities, as well as other issued convertible securities, at the request of their owners.

The category of federal property to be alienated in accordance with the RF Government's decisions for the purpose of attracting investment, boosting the stock market's development, and promoting modernization and hi-tech development across the national economy was augmented by property alienated for the purpose of boosting the development of small and medium-sized businesses, including the activity of JSC Federal Corporation for the Development of Small and Medium-sized Entrepreneurship, set up in accordance with special Federal Law adopted in 2007 (No 209-FZ) as a development institution operating in the sphere of small and medium-sized businesses. This was the second norm introduced in order to coordinate other laws with the laws on privatization. In 2008, the law was augmented by the provision that specified the participation of small and medium-sized businesses in the procedure of privatizing leased immovable property entities in regional and municipal ownership.

Besides, the law on privatization has been augmented by the newly introduced norm that specifies the participation of notaries and notary chambers in the privatization of regional and municipal property by means of sale at an auction or in the framework of a tender, as stipulated in the Russian Federation's Fundamental Principles of Legislation on the Notariat, adopted as of 1993.

Among the new alterations to privatization legislation we may point to the norms that define the procedure of privatizing various public assets as applied specifically to the newly established public corporation, *Roscosmos*, or the Russian Federal Space Agency (set up in accordance with specially issued Federal Law of July 13, 2015 (No 215-FZ)). We may also note its similarity with the previously introduced special norms applied to the reorganization of state railway enterprises into JSCs (in 2003) and the creation of state corporations *Rosatom* and *Rostec* (in 2007).

¹ For the Far-eastern Federal Okrug, in spring 2015, JSC *Far East Development Corporation* (formerly *Moscow Materisl-Technical Base*), with a 100% stake in federal ownership, was appointed in this capacity. The shareholder rights in that JSC are executed by the RF Ministry for the Development of the Far East, and the model provision for the management of shares in joint-stock companies held in federal ownership (introduced in 2004) is not applicable to it.

Thirdly, important changes were introduced with regard to the information backing for privatization procedures (Article 15). Now it involves the publication, on official websites, of privatization programs and reports on their implementation at all levels of state authority, of the decisions concerning the terms of privatization of state and municipal property entities, and announcements of forthcoming sales and their results.

The law on privatization no longer contains any mention of the other channel that can be used for information backing (publications in the mass media, including official print media organs, public information systems, including communications networks). Throughout the text of the law, the term 'publication' was replaced by 'posts to websites', and any references to publications in official printed organs disappeared.

The requirement concerning the placement of information on a sale deal involving privatized property (at least 30 days prior to the date of sale of a given property entity) is augmented by the requirement that the decision concerning the terms of a privatization deal should be published within 10 days from the date of making that decision.

The information to be released in connection with the decision concerning a privatization deal is augmented by the requirements to the formalization of the relevant documents and the information on all the previously held biddings for a given property entity over the year preceding its sale, as well as the information on the results of bidding.

With regard to the sale of stakes in JSCs and LLCs, the necessary information to be released (in addition to the existing 5 information items) should be as follows:

1) the link to the website where the annual and intermediate accounting (financial) reports of a given economic society should be posted in accordance with newly introduced Article 10.1 of the Law;

2) the area of the land plots (or plots) where the real estate held by a given economic society is situated;

3) the number of its employees;

4) the area occupied by the real estate units held by a given economic society and their list, where the encumbrance on the real estate, both previously existing and identified as of the date of their privatization, should be specified;

5) information concerning previous biddings for a given property entity over the year preceding its sale, which did not take place, were cancelled, recognized to be null and void, with specifying the reasons for each of these events (no bids, only one potential buyer, or other reason). Previously, this information was listed as a separate item in the text of the Law, where the requirements for the information release concerning the sale of a state or municipal property entities to be published on the Internet were specified.

The period for publishing information on the Internet concerning the results of a privatization deal was shortened from 30 to 10 days, and the presentation format was altered.

The obvious information¹ was augmented as follows: the time of a bidding, as well as the name of the individual or legal entity participating in the bidding who offered the highest price for a given property entity compared to the bids by the other participants, with the exception of the bid made by the winner (in the event of closed bidding) or the participant who made the last but one bid for the property entity offered for sale (in the event of open bidding). The latter provision is introduced in place of the information on the number of bids and those who were recognized to be participants in the bidding.

¹ The description of a property entity, the name of the seller, the date and place of a bidding, the price of the deal, the name of the buyer (winner in the bidding).

Fourthly, a number of new provisions were introduced with regard to privatization planning and privatization procedures, the majority of these having to do with the technical backing for the management processes.

The government powers (Article 6) were augmented by the right to make relevant decisions concerning the approval of the list of legal entities to be assigned the task of organizing an electronic sale of state and municipal property.

With regard to the conduct of a sale (Article 32.1), a direct reference to Article 15 was introduced, the latter determining the forms of information backing for a privatization deal. At the same time, the norm concerning the formalization, in the form of a protocol, of the results of an electronic sale no longer requires their publication, on the day following the day of signing that protocol, on the official website marketplace where the sale was completed.

The norm requiring that the Government of the Russian Federation is obliged to submit to the State Duma a year-end report on the results of federal property privatization was augmented by the requirement that the report should be simultaneously posted to its official website (Article 9).

The Law on Privatization was augmented by a new article (Article 10.1) to the effect that the unitary enterprises, JSCs and LLCs included in privatization programs should submit to the empowered bodies at all levels of state authority their annual and intermediate accounting (financial) reports within 30 days from the end of the relevant reporting period, and that the information contained in those reports should be posted to the official websites determined for this purpose by relevant bodies of authority.

An important special provision was added with regard to setting the price of a property entity earmarked for privatization (Article 12). The stipulation to the effect that its starting price is to be set in accordance with RF legislation on pricing has been limited to the condition that the period between the date of drawing up a valuation report and the date of posting to an official website information concerning the forthcoming sale of a state or municipal property entity should be no longer than half-year.

Fifthly, the mechanisms applied in several privatization methods were properly adjusted.

With regard to auctions, while the period for submitting applications for participation remained unchanged (no less than 25 days), the period for recognizing the applicants to be participants in an auction was established to be 5 workdays after the deadline. The timelines for holding an auction were shortened (no later than on the 3rd workday from the date of recognizing the applicants to be participants in an auction vs. no earlier than after the elapse of 10 workdays). The amount of down payment necessary for securing the participation in an auction was doubled (20% vs. 10% of the starting price).

The notification concerning the recognition of a participant in an auction to be the winner is issued on a written receipt to the winner or its attorney on the day of announcing the auction results (vs. 5 days from the date of announcing the auction results), while the stipulation concerning the possibility of notification by registered post was abolished. The period for concluding a purchase and sale contract with the auction winner was shortened from 15 to 5 workdays from the date of announcing the auction results).

With regard to tenders and sales effectuated by means of a public offer, the norms regulating the timelines for recognizing the applicants to be participants in the privatization procedures, the conduct of these procedures, the increase of the amount of down payment necessary for securing participation (from 10% to 20% of the starting price), the issuance to the winner of a notification concerning the signing of a purchase and sale contract were all made to be identical to the norms regulating the auction procedure.

So, the norms that forbade the conclusion of a contract based on the results of a bidding, a sale by means of a public offer, and a sale without the selling price being announced earlier than 10 workdays from the date of posting the protocol of the results of sale of state or municipal property to the relevant websites were abolished accordingly.

In addition, the provisions concerning the formalization of purchase and sale deals involving privatized property entities (Article 32) were augmented by a norm to the effect that a violation of the established procedure for conducting a sale of state or municipal property, including an unsubstantiated refusal to recognize an applicant to be a participant in a bidding, should entail a recognition of that sale deal to be null and void.

Another norm (formerly stipulated in Article 43) to the effect that in an even when a property entity is identified that should have been contributed to the charter capital of a given OJSC, but which was not included, at the moment of its creation, into the privatized property complex, that OJSC should enjoy a priority right to purchase that property entity at a market price, while the property that has not been bought by that OJSC should be privatized in the established procedure, is now abolished.

On the whole, the innovations introduced in legislation in 2015 are designed to boost the privatization process. The suggested upgrading, to an electronic form, of the information backing for state and municipal property privatization mechanisms is aimed at increasing the overall transparency of the privatization process and preventing corruption and crime in that sphere.

To achieve that goal, it is important to draw up the list of legal entities to be assigned the task of conducting the electronic sales of state and municipal property. The necessity to involve electronic trading floors in government purchases has already been discussed for a long time. The arguments in favor of relying on such forms of commerce were the rich experience that has been accumulated in electronic transactions in various sectors, as well as the available high-quality infrastructure with its high level information security policy.

By the RF Government's Directive of December 4, 2015, No 2488-p, the list of 6 organization providing electronic trading floors was drawn up, including OJSC *RAD*, the private trader that has been for three years the organizer of sales of state properties earmarked for privatization. It is now assigned the task of selling approximately 200 JSCs currently in federal ownership, and more than 80 treasury property entities. Beside OJSC *RAD*, the list of legal entities to be assigned the task of conducting electronic bidding, contains 5 other organization, including 2 JSCs, CJSC *Sberbank – Automated Trading System*, LLC 'RTS-Tender' and SUR Agency for Government Order, Investment Activity and Interregional Connections of the Republic of Tatarstan¹.

The improved mechanisms applied in sales at auctions, tenders and by means of a public offer have made it possible to shorten the organization procedures (the period between the date of determining the participants in a bidding and the date of bidding, the period of processing the results of bidding, the signing of purchase and sale contracts), to speed up the sale of assets earmarked for privatization, to shorten the period of holding the down payments of the participants in a bidding, and to lower the potential risk of conspiracy between them, thus ensuring an adequately competitive environment.

It is noteworthy that the requirements to the amount of down payments are now similar to those that existed prior to 2010, when it was reduced by half (from 20% to 10% of the starting price specified in the property sale announcement). The previously applied timelines for signing

¹ www.economy.gov.ru, December 8, 2015.

contracts with the auction winners and for completing sales in the framework of a public offer (5 workdays) are now reestablished¹.

One cannot overlook the increasingly widespread practice of abolishing the norms stipulated in the law on privatization. From the moment of its approval in late 2001, the number of property categories the alienation of which is no longer regulated by it has almost doubled (having increased from 11 to 20), in spite of the currently broader interpretation of some of these norms.

6.1.4. The presence of the State in the economy and issues relating to the management of subjects operating in the public sector

Several serious alterations were made in 2015 to the list of strategic enterprises and joint-stock companies.

As of early December 2015, only one company was placed on that list: JSC *Bashneft*. Over the same period, 2 FSUEs and 2 JSCs, including JSC *Concern Sea Underwater Weapons – Gidropribor*, were struck off that list. The latter is a big vertically integrated structure (VIS), where all shares (but one) are earmarked as a contribution to the charter capital of another VIS (Tactical Missiles Corporation JSK) by way of payment for its additional issue and placement of shares.

In addition to the enlargement of Tactical Missiles Corporation JSK, there were some other important decisions concerning the development of other integrated structures, including OJSC Concern *VKO Almaz–Antey* (where all 100% of shares are in federal ownership), to be renamed as Aerospace Defense Concern *Almaz–Antey*², and State Research Center of the Russian Federation Concern CSRI *Elektropribor* JSC, its charter capital consisting of the contribution of 100% – 1 shares in the JSC established on the basis of a FSUE to be struck off the list of strategic companies and blocking stakes in another JSC.

Another two important alterations in the list of strategic organizations are as follows. PJSC (Public Corporation) *ROSSETI* was allowed to increase its charter capital, at a higher government corporate control threshold (85.31%, vs. 61.7% in 2013 and 54.52% in 2012); and the state stake in the charter capital of JSC *SIA* was reduced very significantly (vs. 50% + 1 share in 2011 and 100% initially), as part of the overall context of the Moscow airport system's development based on the principles of a PPP (as described earlier).

Among the issues involved in managing economic societies with state participation, we can naturally point out those associated with the JSCs entered in the Special List approved by Directive of the Government of the Russian Federation of 23 January 2003, No 91-r, where the standpoint of the State as a shareholder on a number of the most important issues is to be determined at the government level. In accordance with the decisions of the Government of the Russian Federation issued with regard to general shareholder meetings, in the course of the corporate year 2015 a total of 390 candidates to the boards of directors (supervisory boards) of JSCs entered in the Special List³ were approved, including 197 professional attorneys (out of a

¹ It should be noted that in the initial wording of the law it was calendar days, and not workdays (as amended in 2011). Initially, the period for signing the contract in the framework of a tender was 10 days.

² The property integration scheme applied in the enlargement of *Almaz–Antey* is described in detail in the previous year's overview *The Russian economy in 2014. Trends and outlooks* (Issue 36). M., Gaidar Institute, 2015, pp. 396–397.

³ Including data on candidates to the managerial bodies of OJSC "*United Grain Company*", taken from the documents issued by the special Commission's decisions (RF Government's approval was granted without delay), but

total of 219 persons recommended by the special Commission (attached to *Rosimushchestvo*) assigned the task of selection of independent directors, representatives of the shareholder interests of the RF, and independent experts to be elected to the managerial and control bodies of joint-stock companies), 94 independent directors (instead of 112 recommended persons) and 118 civil servants (instead of 106 recommended persons).¹

Over the last 5 years, the structure of state participation in the managerial bodies of JSCs entered in the Special List has undergone noticeable changes (*Table 4*).

Table 4

The movement and structure of state representatives in the managerial and control bodies of JSCs entered in the Special List, in 2010–2015

Year	JSC, units	State representatives in boards of directors (supervisory boards)								In audit commissions: independent experts, number
		Total		Civil servants		Professional attorneys		Independent directors		
		number	%	number	%	number	%	number	%	
2010	49	386	100.0	193	50.0	117	30.3	76	19.7	...
2011	51	416	100.0	181	43.5	150	36.1	85	20.4	...
2012	57	434	100.0	141	32.5	205	47.2	88	20.3	15
2013	63	452	100.0	127	28.1	228	50.4	97	21.5	27
2014	51	402	100.0	106	26.4	199	49.5	97	24.1	45
2015 ^a	50	390	100.0	118	30.3	178	45.6	94	24.1	54

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

Source: Year-end 2014 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share'); own calculations.

The changes within the boards of directors that occurred in 2015 had to do only with the relative share of civil servants, which increased to more than 30% vs. 26% a year earlier, due to the reduced number of professional attorneys (to 45.6%). The share taken up by independent directors remained unchanged (about 24%). On the whole over a longer period (2010–2015), the group of JSCs included in the Special List demonstrated stable growth in the number of professional directors, as a result of which their number per company increased from 3.94 to 5.44, while the number of civil servants dropped from 3.94 to 2.36.

As for the structure of the audit commissions in 2015, although civil servants still prevailed, their number shrank to 70% vs. 3/4 a year earlier (or 128 vs. 54 independent experts). However, the total number of the latter tripled over the past 3 years, their number per company increased from 0.26 in 2012 to 1.08 in 2015.

As for the structure of the managerial bodies of companies not included in the Special List, it should be said that in 527 JSC, where the possession of right to a controlling or blocking stake ensured that state representatives took up a total of 3,231 positions in the boards of directors (or supervisory boards) of JSCs,² more than half of them were professional directors (1,660 or 51.4%), while the share of civil servants (1,571) was 48.6%. However, in another 178 JSCs

less data for OJSC *State Transport Leasing Company* (GTLK) (the shareholder rights are executed by the RF Ministry of Transport) and *GLONASS* (a newly created company).

¹ The final decisions concerning the approval of candidates to the boards of directors and supervisory boards of the JSCs entered in the Special List are made by the RF Government.

² Other than (1) 178 JSCs where the State does not hold a blocking stake, (2) 151 JSCs where the State holds a controlling or blocking stake, but the decisions concerning their approval had not been passed for various objective reasons, (3) 37 JSCs whose documents were submitted to the special Commission for the selection of professional directors and independent experts but never considered, due – among other things – to the fact of their privatization, transfer of shares under a trust management agreement, and the initiation of a proceeding in bankruptcy, when shareholders are deprived of their right to set up a company's management and control bodies.

with the RF stakes in their charter capital amounting to less than 25%, 100% of the representatives of government interests in the boards of directors (or supervisory boards) were civil servants (approximately 270 positions). However, even if we give consideration to this factor, the total number of civil servants participating in the boards of directors (or supervisory boards) of the JSC off the Special List shrank on 2014, when it had amounted to 2,126.

Table 5

The movement and structure of professional directors in the capacity of state representatives in the managerial and control bodies of JSCs off the Special List, in 2009–2015

Year	JSC, units	State representatives in boards of directors (supervisory boards) (other than civil servants)						In audit commissions: independent experts, number
		Total		Professional attorneys		Independent directors		
		number	%	number	%	number	%	
2009	233	521	100.0	310	59.5	211	40.5	...
2010	389	707	100.0	493	69.7	214	30.3	...
2011	512	1,109	100.0	830	74.8	279	25.2	...
2012	822	1,860 ^a	100.0	1,350	72.6	510	27.4	...
2013	637	1,715	100.0	1,092	63.7	623	36.3	335
2014	683	2,094	100.0	1,382	66.0	712	34.0	498
2015	527 ^b	1,660	100.0	1,267	76.3	393	23.7	330

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

^b – in addition to those 527 JSCs where professional directors were elected to the managerial bodies, there were another 151 JSCs with a controlling or blocking stake held by the State, where decisions concerning their approval had not been passed for various objective reasons.

Source: Year-end 2014 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share'); own calculations

As follows from data presented in Table 5, the changes in the structure of professional directors were quite remarkable. While their total number shrank by 1/5, the number of independent directors surged much deeper (by 45%), their relative share among state representatives (other than civil servants) hit its record low since 2009 (less than 24%). The number of independent experts in audit commissions also surged, by 1/3. However, the number of professional directors sitting on boards of directors (supervisory boards) per company increased from 3.07 to 3.15, while the number per company of independent experts in audit commissions shrank from 0.73 to 0.63.

The past year saw some serious progress in the development of model documents designed to standardize the management procedures applied by state-owned companies.

Rosimushchestvo developed its methodical instructions concerning the preparation of internal normative documents designed to regulate the activity of public corporations, public companies, and JSCs entered into the Special List.

According to the Government of the Russian Federation, these documents are as follows:

- the long-term development program (LDP);
- the provision on key performance indices (KPI);
- the regulation on investment and operative performance improvement and expenditure reduction;
- the provision on internal audit;
- the provision on a quality management system;
- the provision on a risk management system;

– the provision on the procedure for elaborating and implementing an innovative development program¹.

As far as the practical aspects are concerned, the last 5 documents listed above (that is, less LDP and KPI) were approved, as of August 1, 2015 in no more than ten out of 52 JSCs entered in the Special List (the provision on internal audit was approved in 15 companies), and another 30+ companies began to elaborate such documents.

The meetings of boards of directors and supervisory boards approved drafts LDPs in 42 companies, and draft KPIs – in 40 companies. The prospects appear to be more problematic for the vast body of those companies off the Special List where the total stake held by the State is more than 50%, and the shareholder rights are executed by *Rosimushchestvo* (469 units). As of the aforesaid date, only 147 of them had approved their LDPs (while another 97 JSCs were still elaborating their draft programs), and 210 companies approved their KPIs (while in another 65 JSC these were still being elaborated).

In addition to creating a medium-term development planning systems for companies (in based on LDP and KPI), much effort was focused on the implementation of measures designed to boost labor productivity.

In 40 JSCs entered on the Special List, a set of measures aimed at boosting labor productivity is introduced, in 39 companies the relevant indices are incorporated in the managerial LDPs and KPIs, and in 29 companies alterations were made to the labor contracts concluded with independent executive bodies. The rate of implementation of these measures was lower in the larger group of 469 companies off the Special List and with the total stake held by the State of more than 50%. Only in 100 of these JSCs the labor productivity index is incorporated in their LDPs, in 106 companies it is incorporated in their managerial KPIs, and in 58 companies alterations were made to the labor contracts concluded with independent executive bodies.

In the framework of the decision, made in 2014, that centralized control should be established over the cash flows, liquidity and financial risks of public corporations, JSCs with state stakes, their affiliations and dependents, it was also necessary to set up single treasuries for the core companies, their affiliations and dependents. For this purpose, *Rosimushchestvo* issued relevant directives for state representatives in the boards of directors and supervisory boards, established the schedule for setting up the special treasuries and prepared recommendations on the companies' major financial management functions. However, later on these goals were suspended, and the issue of their implementation, with regard to the creation of special treasuries, is to be further elaborated by the RF Ministry of Finance and the Federal Financial Monitoring Service (*Rosfinmonitoring*)².

Also in 2015, the Model Provision on the procedures of purchases for the needs of JSCs, introduced in late 2014, was newly amended, with a more detailed elaboration of the regulation of purchase activity. Draft methodological recommendations for internal risk management and internal control organization were prepared, so as to prevent corruption in JSCs with state stakes, as well as the methodological recommendations for preparing the provision on the internal control system in such companies.

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

¹ www.rosim.ru, July 2, 2015.

² Year-end 2014 Report on the Management of Federal Stakes in OJSC and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share').

Governance Code, which is only recommendatory, but is already being applied by 13 biggest public companies¹.

Rosimushchestvo prepared materials titled ‘The formation of a methodological base for corporate governance’, and planned measures designed to assist in implementing the provisions stipulated in the Code. The CEOs of JSCs were to assess the feasibility of applying its principles in each company, with due regard for the potential costs and risks. On the whole, the plan aims at increasing transparency in JSCs, boosting the performance of their boards of directors and corporate secretaries, and ensuring better protection of shareholder rights. The process of implementing the Code’s principles and issuing the relevant corporate document is to be over in 2016.

As for the normative-legal innovations introduced in 2015 with regard to corporate governance in the public sector, we may note the alterations introduced into the Code of Administrative Offenses of the Russian Federation, whereby the amount of fines for CEOs for failing to implement the necessary measures designed to prepare a unitary enterprise for its reorganization into a joint-stock company were raised; and the approval, by *Rosimushchestvo*, of a detailed step-by-step algorithm of preparing a unitary enterprise for privatization. Besides, *Rosimushchestvo* completed the preparation and coordination with all the relevant branch federal bodies of executive authority of the unified draft of a model charter of a JSC where *Rosimushchestvo* is the sole shareholder, and whose shares are to be alienated within the framework of the privatization program. Some alterations were introduced into the structure of the annual report of a JSC whose shares are in federal ownership (its initial wording approved by Decree of the RF Government of December 31, 2010, No 1214), These have to do with specifying a company’s main areas of development and main risk factors; besides, a new section was added, which describes the approaches to organizing the risk management and internal control systems, as well as the internal audit functions.

The total amount of federal budget revenues administered by *Rosimushchestvo*, in the form of dividends charged on the shares held by the RF, with due regard for the decisions approved by annual general shareholder meetings as of 1 August 2015, was in excess of 237.7 bn Rb.² The bulk of this sum (59%) was provided by the JSCs on the Special List (vs. 2/3 a year year-lier). The group of 11 biggest payers of dividends to the federal budget (in amounts in excess of Rb 1bn) consists of OJSC *Gazprom*, *Rosneftegaz*, PJSC (Public Corporation) *Bashneft*, PJSC (Public Corporation) *VTB Bank*, OJSC *Alrosa*, PJSC (Public Corporation) *Rostelecom*, OJSC *Zarubezhneft*, *Rusgidro*, JSC *Transneft*, the Agency for Housing Mortgage Lending (AHML), and PJSC *Sovkomflot*.

Meanwhile, the number of companies on the Special List earmarked for the payment of dividends no less than 25% of their net profit, as determined on the basis of their year-end reports of 2014, declined on the previous year (21 vs. 34 JSCs). The main reason for the downward deviation of the amount of dividends from the target norm established by RF Government Directive No 774-r of 29 May 2006, introduced in the wording approved as of the end of 2012, was the loss incurred by state-owned companies by the end of a reporting period. Out of the 14 JSCs on the Special List with regard to which the Government of the Russian Federation issued decisions that they were not to pay dividends, 11 companies were allowed not to pay dividends specifically due to their losses.

¹ www.rosim.ru, November 12, 2015; November 16, 2015; November 23, 2015.

² The final year-end data for 2015 based on budget statistics are shown later, among other types of property-generated revenues.

As seen by the year-end results of 2014, for 7 JSCs on the Special List (the AHML, JSC *Bashneft*, OJSC *Zarubezhneft*, *Rosneft*, *Rostelecom*, *Rusgidro*, PJSC *Sovkomflot* the amount of dividends to be paid to the federal budget was charged on the basis of financial reports drawn up in accordance with the International Financial Reporting Standards (IFRS), while the aggregate amount of dividends charged by these companies for the year 2013 increased 1.9 times on the corresponding index for the same period of the previous year (calculated in accordance with the Russian Accounting System (RAS)).¹

6.1.5. The budgetary effect of government property policy

In 2015, similarly to the situation in 2014, the movement of federal budget revenues associated in one or other way with state property was multi-directional. The revenues generated by the use of state property (renewable sources) increased alongside the declining revenues from privatization and sale of property (non-renewable sources).

Below, in *Tables 6* and *7*, we present the data on revenues taken from the laws on federal budget execution for 2000–2014 (with the exception of data for 2015) generated by the use and sale of state property belonging to specified categories of tangible property entities².

Table 6

¹ 2014 Year-end Report on the Management of Federal Stakes in OJSC and the Use of the RF Special Right to Participate in an OJSC 's Management ('Golden Share').

In this connection it should be noted that in the Report for the previous year *Rostelecom* and *Rusgidro* were already named among the companies applying IFRS.

² We do not consider here the federal budget revenues generated by payments for the use of natural resources (including biological water resources, revenues from the use of forest fund, and the extraction of mineral resources); compensation of losses incurred by agricultural production sector; revenues from the confiscation of agricultural land; revenues generated by financial operations (revenues from placement of budget funds (revenues from federal budget residuals and their investment; from 2006 onwards these include the revenues from the management of the RF Stabilization Fund (from 2008 onwards – the Reserve Fund and the National Welfare Fund); revenues from investment of monies accumulated in the course of trading RF stocks in the auction market); interest on domestic loans funded from the federal budget, interest on government loans (monies received from the governments of foreign countries and foreign legal entities as interest payments on RF government loans; money transfers from legal entities (enterprises and organizations), RF subjects, municipal formations received as interest and guarantee payments on loans received by the RF from foreign governments and international financial organizations)); revenues generated by paid services rendered to the population or monies received by way of compensation of government expenditures; transfers of the RF Central Bank's profits; certain categories of payments from state and municipal enterprises and organizations (patent duties and registration fees for official registration of software, databases, integral microcircuit topologies; and other revenues which until 2004 were part of mandatory payments of state organizations (except revenues generated by the operations of Joint Venture *Vietsovetro* (from 2001) and transfers of part of profits generated by FSUEs (from 2002)); revenues from the implementation of product share agreements (PSA); revenues from the disposal of confiscated and other property earmarked as government revenue (including property transferred to state ownership in the procedure of inheritance or gift, or treasure trove appropriation); revenues generated by lotteries; other revenues from the use of property and rights in federal ownership (revenues from the execution of rights to the results of intellectual activity (R&D and technologies) intended for military, special or dual use; revenues generated by the execution of rights to the results of scientific and technological research held by the RF; revenues generated by the exploitation and use of property relating to motor roads, motor road levies imposed on transport vehicles registered in the territories of other states; execution of the Russian Federation's exclusive right to the results of intellectual activity in the field of geodesy and cartography; and other revenues from the use of property in the ownership of the Russian Federation); revenues generated by organizations from the permitted types of economic activity and earmarked for transfer to the federal budget; revenues from realization of government reserves of precious metals and precious stones.

**Federal budget revenues generated by use of state property (renewable sources)
in 2000–2015, m Rb**

Year	Total	Dividends on shares (2000–2015) and revenues generated by other forms of participation in capital (2005–2015)	Payment for lease of land in state ownership	Revenues generated by lease of property in state ownership	Revenues for transfer of part of net profits of FSUEs after taxes and other mandatory payments	Revenues generated by Joint Venture <i>Vietsovpetro</i>
2000	23,244.5	5,676.5	-	5,880.7	-	11,687.3 ^a
2001	29,241.9	6,478.0	3,916.7 ^b	5,015.7 ^c	209.6 ^d	13,621.9
2002	36,362.4	10,402.3	3,588.1	8,073.2	910.0	13,388.8
2003	41,261.1	12,395.8		10,276.8 ^e	2,387.6	16,200.9
2004	50,249.9	17,228.2	908.1 ^f	12,374.5 ^e	2,539.6	17,199.5
2005	56,103.2	19,291.9	1,769.2 ^h	14,521.2 ⁱ	2,445.9	18,075.0
2006	69,173.4	25,181.8	3,508.0 ^h	16,809.9 ⁱ	2,556.0	21,117.7
2007	80,331.85	43,542.7	4,841.4 ^h	18,195.2 ⁱ	3,231.7	10,520.85
2008	76,266.7	53,155.9	6,042.8 ^h	14,587.7 ⁱ	2,480.3	-
2009	31,849.6	10,114.2	6,470.5 ^h	13,507.6 ⁱ	1,757.3	-
2010	69,728.8	45,163.8	7,451.7 ^h	12,349.2 ^j	4,764.1	-
2011	104,304.0	79,441.0	8,210.5 ^h	11,241.25 ^j	4,637.85	773.4
2012	228,964.5	212,571.5	7,660.7 ^k	3,730.3 ^l	5,002.0	-
2013	153,826.2	134,832.0	7,739.7 ^k	4,042.7 ^l +1,015.75 ^m	6,196.1	-
2014	241,170.6	220,204.8	7,838.7 ^k	3,961.6 ^l +1,348.5 ^m	7,817.0	-
2015	284,471.3	258,872.2	9,032.3 ^k	5,593.8 ^l +1,687.8 ^m	9,285.2	-

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

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

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

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

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

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

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

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

ⁱ – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs: properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) organizations providing research-related services to the Russian Academy of Sciences and to sectoral academies of sciences, (iii) educational establishments, (iiii) healthcare institutions, (iiiii) federal postal service institutions of the Federal Communications Agency (*Rossvyaz*), (iiiii) state cultural and arts

institutions, (iiiiiii) state archival institutions, and (iiiiiii) the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs¹ (for the period 2006–2009 - less revenues from the permitted types of economic activity and revenues from the use of federal properties situated outside of RF territory, which are received abroad and were not listed as a separate item in the previous years²);

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

^k – the amount of lease payments after the delineation of titles to land plots between different tiers of government and revenues generated by the sale of right to conclude lease agreements in respect of land plots in federal ownership (with the exception of land plots held by federal autonomous institutions and budget-funded institutions), and (i) lease payments received for the lease of land plots in federal ownership, situated in public motor road precincts of federal importance (2012–2015), and (ii) payments for the execution of agreements on the establishment of servitude with regard to land plots situated within public motor road precincts of federal importance for the purposes of construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, installation and exploitation of elevated advertizing structures (only for 2012 and 2014–2015), и (iii) payments for the execution of agreements on the establishment of servitude with regard to land plots in federal ownership (only for 2015);

^l – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of autonomous and budget-funded institutions): properties transferred for operative management to organizations with the status of a state entity (i) scientific research institutions, (ii) educational establishments, (iii) healthcare institutions, (iiii) state cultural and arts institutions, (iiii) state archival institutions, (iiiiii) other revenues from the lease of property held by right of operative management by federal treasury institutions, (iiiiiii) federal bodies of state authority, the Bank of Russia, and the managerial bodies of government off-budget funds (iiiiiii) federal treasury institutions (only for 2015) (less revenues from the use of federal properties situated outside of RF territory, which are received abroad);

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

Source: Law of Federal Budget Execution for the period 2000–2014; Report on Federal Budget Execution as of January 1, 2015 (monthly report), www.roskazna.ru; own calculations.

In 2015, the aggregate revenue generated by renewable sources increased on the previous year by nearly 18%.

The amount of dividend receipts and the transfer of part of their profit by unitary enterprises displayed growth by approximately 17–18%. These indices in absolute terms hit their record high of the entire period since the early 2000s, having risen to Rb 258.9bn and Rb 9.3bn respectively.

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

² According to data released by the RF Ministry of Property Relations, the revenues from the use of federal properties situated outside of RF territory (except revenues generated by the operations of Joint Venture *Vietsovpetro*) amounted to Rb 315m in 1999 and Rb 440m in 2000. From then on, the principal role in handling the commercial use of federal immovable property entities situated abroad began to be played by FSUE Enterprise for the Management of Property Situated Abroad.

Somewhat lower growth (by 15.2%) was demonstrated by the amount of budget revenues generated by lease of land, amounting to more than Rb 9bn.¹ However on the positive side, for the first time in many years, the aggregate revenues from lease of federal property surged at an accelerated rate (by more than 37%) to Rb 7.3 bn. In contrast to the situation in 2013–2014, this result was achieved due to the growth (by 41%) of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of budget-funded and autonomous institutions), while the revenues generated by lease of RF treasury property (with the exception of land plots) increased by 25%.

As a result, the structure of federal budget revenue received from renewable sources remained unchanged. Dividends accounted for the bulk of federal budget revenue received from renewable sources (approximately 91%). The relative shares of the other sources were almost negligible: profits transferred by FSUEs – 3.3%; lease of land – 3.2%, lease of property – 2.6%.

While proceeding to an analysis of federal budget revenues generated by privatization and sale of state property (*Table 7*), it should be noted that, from 1999 onwards, the revenues from sales of such assets (state stakes, and over the period 2003–2007 - also land plots²) have been treated as a source of funding to cover budget deficit.

Table 7

**Federal budget revenues generated by privatization and sale of property
(non-renewable sources) in 2000–2015, m Rb**

Year	Total	Sale of shares in federal ownership (2000–2015) and other forms of participation in capital (2005–2015) ^a	Sale of land plots	Sale of miscellaneous properties
2000	27,167.8	26,983.5	-	184.3 ^b
2001	10,307.9	9,583.9	119.6 ^c	217.5+386.5+0.4 (ITA) ^d
2002	10,448.9	8,255.9 ^f	1,967.0 ^d	226.0 ^e
2003	94,077.6	89,758.6	3,992.3 ^b	316.2+10.5 ⁱ
2004	70,548.1	65,726.9	3,259.3 ^j	197.3+1.364.6+0.04 (ITA) ^k
2005	41,254.2	34,987.6	5,285.7 ^l	980.9 ^m
2006	24,726.4	17,567.9	5,874.2 ^l	1,284.3 ⁿ
2007	25,429.4	19,274.3	959.6 ^o	5,195.5 ^p
2008	12,395.0	6,665.2+29.6	1,202.0 ^q	4,498.2+0.025 (ITA) ^r
2009	4,544.1	1,952.9	1,152.5 ^q	1,438.7 ^r
2010	18,677.6	14,914.4	1,376.2 ^q	2,387.0+0.039 (ITA) ^r
2011	136,660.1	126,207.5	2,425.2 ^q	8,027.4 ^r
2012	80,978.7	43,862.9	16,443.8 ^q	20,671.7+0.338 (ITA) ^r
2013	55,288.6	41,633.3	1,212.75 ^q	12,442.2+0.310 (ITA) ^r
2014	41,155.35	29,724.0	1,912.6 ^q	9,517.7+1.048 (ITA) ^r
2015	19,792.4	7,203.9	1,634.55 ^q	10,953.9+0.062 (ITA) ^r

¹ The amount of lease payments for land plots, just as a year earlier, includes lease payment received for the lease of land plots in federal ownership situated in public motor road precincts of federal importance, payments for the execution of agreements on the establishment of servitude with regard to land plots covered by the right-of-way for general-use motorways of federal importance for the purposes of construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, and installation and exploitation of elevated advertising structures, which are not specified as a separate item in the budget reports for 2013. In addition, in 2015, the revenues generated by the lease of land plots for the first time were augmented by payments for the establishment of servitude with regard to land plots in federal ownership.

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

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

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

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

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

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

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

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

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

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

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

^k – the sum of (1) revenues generated by sale of properties in federal ownership, treated as an internal source of funding to cover federal budget deficit, (2) revenues generated by (i) sale of apartments, (ii) sale of equipment, transport vehicles and other tangible assets, the proceeds being transferred to the federal budget, (iii) sale of the products of ships recycling industry, (iiii) sale of property held by state unitary enterprises and state institutions, as well as sale of military property, (iiiii) sale of the products of recycled armaments, military technologies and ammunition, (3) revenues generated by sale of intangible assets (ITA); these are treated as federal budget revenues;

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

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

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

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

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

^q – revenues generated by sale of land plots in federal ownership (less land plots held by federal autonomous and budget-funded institutions (data for 2011–2012)), treated as federal budget revenues; in 2015, these were augmented by payments for the area added to land plots in private ownership as a result of redistribution of land between these land plots and those in federal ownership;

^r – revenues generated by sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA), and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue, and revenues from sale of timber confiscated from timber poachers) (data for 2008–2011), revenues generated by the release of tangible assets from the state reserve of special raw materials and divisible materials (in the part of revenues generated by sale, temporary lending, and other uses); and with regard to data for 2012–2015, also revenues generated by sale of timber produced as a result of measures designed to safeguard, protect, reproduce forests in the framework of government order for the implementation of such measures without sale of forest plantations for timber production, and timber produced as a result of use of forests situated in the lands belonging to the Forest Fund of the Russian Federation, in accordance with Articles 43–46 of the RF Forest Code; revenues generated by commodity intervention from the reserve stocks held in the federal intervention fund of agricultural products, raw materials and foodstuffs, revenues generated by the release of tangible assets from the state reserve, revenues generated by the involvement of convicts in reimbursable labor (in the part of sales of finished product), revenues generated by sale of products requiring special storage conditions), this figure includes revenues generated by (i) sale of apartments, (ii) sale of property held by right of operative management by federal institutions (with the exception of autonomous and budget-funded institutions (data for 2011–2015), including revenues from the activity of institutions situated outside of RF territory (2015) (iii) sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that are equated to military service, (iiii) sale of the products of recycled armaments, military equipment and ammunition, (iiiii) sale of products intended for military use and placed on the list of properties held by federal bodies of executive authority in the framework of cooperation in the field of military technologies (data for 2008 and the period 2010–2015), (iiiii) sale of scrapped armaments and other military hardware in the framework of Federal Target Program of Industrial Recycling of Armaments and Military Equipment (2005–2010), (iiiii) revenues generated by sale of immovable property held by budget-funded and autonomous institutions (2014–2015), (iiiii) revenues generated by sale of other properties in federal ownership and revenues generated by sale of intangible assets (ITA); these are treated as federal budget revenues.

Source: Laws on Federal Budget Execution for the period 2000–2014; Report on Federal Budget Execution as of January 1, 2016 (monthly report), www.roskazna.ru; own calculations.

The amount of property-generated federal budget revenue from non-renewable sources in 2015 shrank by more than half, approximately to its 2010 level.

The main cause of this decline was the shrinkage (more than fourfold - to Rb 7.2 bn) of the revenues generated by sale of shares. This is one of the lowest indices for the entire period since the 2000s, which is only above the indices for the crisis period 2008–2009. At the same time, this result is more than 44% above the budget target.

In 2015, the amount of revenues generated by sale of land plots shrank by 14.5% to Rb 1.6bn vs. Rb 1.9bn a year earlier, which is above the indices for 2008–2010 and 2013, but below the year-end result for 2011.

At the same time, growth (by 15%) was demonstrated by revenues generated by sale of miscellaneous properties. For the first time, this revenue source became topmost in the structure of revenues from non-renewable sources (more than 55%). In the crisis years 2008–2009, the amount of revenues from sale of miscellaneous properties accounted for more than 30% of the aggregate revenues from non-renewable sources, and over period 2012–2013 – for more than 20%, although in absolute terms their amount was higher than the corresponding index for 2015.

The revenues generated by sale of shares, which over the last few years accounted for more than 70% of the aggregate revenues from non-renewable sources, in 2015 shrank nearly by half (to 36%). In spite of their shrinkage in absolute terms, the share of revenues from sale of land increased significantly (from 4.6 to 8.3%).

The aggregate federal budget revenue generated by privatization (or sale) and use of state property in 2015 (*Table 8*) increased on the previous year by 7.8%. Its amount in absolute terms (Rb 304.3bn) comes second after the record high (achieved in 2012) of the entire period since the early 2000s, rising several times above the corresponding indices for period 2008–2009.

While in 2014 the ratio between non-renewable and renewable sources in the structure of aggregate revenues generated by privatization (or sale) and use of state property was roughly comparable with the corresponding indices for the crisis period 2008–2009, in 2015 the share of renewable sources shrank more than twofold – to 6.5%, this hitting its record low of the entire period since the early 2000s.

The share of revenues generated by the use of state property, on the contrary, increased from nearly 85.4% to 93.5% in 2015. This index represents a record high for the entire period since the early 2000s, whereas the amount of revenues from property privatization (or sale) shrank by half on 2014, which is still somewhat above the indices for the periods 2001–2002 and 2008–2010.

Table 8

The structure of property-generated federal budget revenues from miscellaneous sources, 2000–2015

Year	Aggregate revenue generated by privatization (or sale) and use of state property		Privatization-generated revenues (non-renewable sources)		Revenues generated by use of state property (renewable sources)	
	m Rb	% of total	m Rb	% of total	m Rb	% of total
2000	50,412.3	100.0	27,167.8	53.9	23,244.5	46.1
2001	39,549.8	100.0	10,307.9	26.1	29,241.9	73.9
2002	46,811.3	100.0	10,448.9	22.3	36,362.4	77.7
2003	135,338.7	100.0	94,077.6	69.5	41,261.1	30.5
2004	120,798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	105,761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,661.7	100.0	12,395.0	14.0	76,266.7	86.0
2009	36,393.7	100.0	4,544.1	12.5	31,849.6	87.5
2010	88,406.4	100.0	18,677.6	21.1	69,728.8	78.9
2011	240,964.1	100.0	136,660.1	56.7	104,304.0	43.3
2012	309,943.2/ 469,243.2 ^a	100.0	80,978.7/ 240,278.7 ^a	26.1/ 51.2 ^a	228,964.5	73.9/ 48.8 ^a
2013	209,114.85	100.0	55,288.6	26.4	153,826.25	73.6
2014	282,325.95	100.0	41,155.35	14.6	241,170.6	85.4

2015	304,263.7	100.0	19,792.4	6.5	284,471.3	93.5
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^a including the proceeds received by the RF Central Bank as a result of sale of a stake in *Sberbank* (Rb 159.3bn), which is probably an overestimation of the actual aggregate share of non-renewable sources, as the budget did not receive that sum in full but minus the balance sheet value of those sources and the costs of the sale of that stake. Consequently, the share of renewable sources is, on the contrary, somewhat underestimated

Source: Laws on Federal Budget Execution for the period 2000–2014; Report on Federal Budget Execution as of January 1, 2016 (monthly report), www.roskazna.ru; own calculations.

* * *

So, the situation in the sphere of ownership relations in 2015 revealed the following basic trends.

The implementation of the three-year privatization program for 2014–2016 was characterized by an unfavorable economic and political background. No big sale deals took place. Compared to the year-end results of 2014, the number of sold stakes slightly dropped, while the rate of unitary enterprises being reorganized into joint-stock companies remained unchanged, and the volume of sales of immovable property entities tripled.

Thanks to *Rosimushchestvo*'s efforts aimed at improving the system of sales and the information backing for privatization deals, the federal budget was augmented by revenues in an amount that exceeds the forecasted revenue figure stipulated in the privatization program (less biggest sale deals), and also exceeds the overall budget target for revenue to be generated by sale of shares. With some reservation, we can still say that due to the active involvement of non-governmental sellers in the sales of state stakes, the privatization process proceeded at a faster rate than is had done in the comparably tough conditions of the crisis year 2009. Some alterations were made to the privatization law, but these were of minor importance, and their true effect (shorter time needed for concluding privatization deals and a higher competition rate) will become manifest only in the future.

The movement of the public sector of the national economy cannot be estimated more or less accurately for lack of necessary statistics, which is the upshot of a switchover to a new methodology, and it is still unclear whether this methodology is appropriate or not. In absence of significant deals, the process of creating vertically integrated structure with the participation of state companies was actively evolving in the corporate control market; besides, the applied instruments for managing the economic subjects operating in the public sector continued to be further improved at the level of model documents.

The structure of federal budget revenues generated by privatization (or sale) and use of state property, just as a year earlier, was dominated by revenues from renewable sources, and their share actually rose to a record high of the entire period since the early 2000s. Growth in absolute terms was demonstrated with regard to all types of renewable sources, the highest increase being noted in the amount of federal budget revenues generated by payments for the use of federal property entities (other than land plots). As for non-renewable sources, growth was observed only with regard to revenues generated by sale of miscellaneous properties (other than land plots).