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TRENDS AND OUTLOOKS  
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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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## 6.1. The public sector and privatization policy<sup>1</sup>

### 6.1.1. The scope of public property ownership

In 2016, statistical data began to be published in the framework of the newly introduced System of Public Property Management Efficiency Estimates. It was approved by Decree of the RF Government of 29 January 2015, No 72 and introduced by way of replacing the public sector monitoring data, collected and released by the Federal State Statistics Service (*Rosstat*) since the late 1990s in accordance with the provisions stipulated in Decree of the RF Government of January 4, 1999, No 1 (as amended as of December 30, 2002). Among other things, the System of Public Property Management Efficiency Estimates contains data on the number of federal state unitary enterprises (FSUEs) and joint-stock companies (JSCs) with RF stakes in their capital, which previously were published as part of government privatization programs (from 2011 – for three-year period, and prior to 2011- for one-year period. Some data can also be found in the Federal Property Register and the new *Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2017–2019*, approved in early 2017 (*Table 1*).

Table 1

### The societies and organizations in federal ownership, entered in the Federal Property Register and the System of Public Property Management Efficiency Estimates in 2010–2016

Date	Economic societies with federal stakes, units		Other holders of ownership rights to registered federal property entities, units		
	stake (share) in capital / of these, JSCs	special right to participate in company's management ('golden share') without holding any stake <sup>a</sup>	FSUEs	FTEs	FSIs
as of January 1, 2010	3,066/2,950 <sup>b</sup>		3,517 <sup>b</sup>		
as of January 1, 2013	2,356/2,337 <sup>b</sup>		1,800/1,795 <sup>b</sup>	72	20,458
as of January 1, 2016.	1,557/1,704 <sup>b</sup>	88/64 <sup>c</sup>	1,488/1,247 <sup>b</sup>	48	16,194
as of April 7, 2016 <sup>c</sup>		1,683/1,620 <sup>d</sup>	1,236	48	16,726
as of July 1, 2016	1,571	82	1,378	47	16,990

<sup>a</sup> – the special right is not entered in the Register as a separate registered unit, however it is mentioned in various materials published by the RF Federal Agency for State Property Management (*Rosimushchestvo*) and in the context of data on state stakes in joint-stock capital;

<sup>b</sup> – the number of JSCs and FSUEs as stated in the privatization programs for 2010–2013, 2014–2016 and 2017–2019 (in the latter, the data based on OKVED Codes (All-Russia Classifier of Economic Activities) refer to companies with shares (or stakes) in federal ownership);

<sup>c</sup> – according to data in the Federal Property Register;

<sup>d</sup> – the denominator is the total number of legal entities, including CJSCs and LLCs; the denominator is the number of stakes and shares; it may be supposed that the difference between the two figures equals the number of JSCs with a 'golden share', but there is no direct indication thereof).

Source: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2011–2013; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; www.economy.gov.ru, 23 April 2013; statistical data from the System of Public Property Management Efficiency Estimates, www.gks.ru, March 20, 2016, September 5, 2016; the RF Federal Agency for State Property Management (*Rosimushchestvo*)'s Annual Report for 2015; Forecast

<sup>1</sup> Authors of chapter: G. Malginov – Gaidar Institute, RANEPa; A. Radygin – Gaidar Institute, RANEPa.

Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2017–2019.

As of January 1, 2016, the Russian Federation was owner of 1,247 FSUEs and held stakes in 1,704 JSCs. If we compare these numbers with the corresponding data stated in the previous privatization programs, it can be noted that the total number of FSUEs shrank by more than 30% relative to early 2013, and by nearly 65% relative to early 2010, while that of JSCs shrank by 27% and by more than 42% respectively. As a result of the accelerated rate of decline demonstrated by the number of FSUEs, it became less than the number of JSCs with RF stakes in their capital, the change that was for the first time recorded in the completed privatization program for 2014–2016. Thus, from 2012–2013 onwards, the group of commercial companies with various forms of federal ownership began to be dominated, in terms of total number, by economic societies with one or other form of state participation, their role in the economy being much more significant.

Below we present the changes that have taken place in that group since 2010; these are summary data based on 3-year privatization programs, i.e., as of early 2010, early 2013, and early 2016 (*Table 2*).

*Table 2*

**The movement and structure of the group of economic societies (JSCs and LLCs) relative to the size of state stakes in their capital (less those JSCs where the state holds the special right granted by 'golden share' without holding any stake) in 2010–2016**

Date	Economic societies (JSCs and LLCs) where RF is shareholder (or participant)									
	total, units	share, %	of these, with RF stake in charter capital amounting to							
			100%		50–100%		25–50%		less than 25%	
			units	%	units	%	units	%	units	%
as of January 1, 2010 <sup>a</sup>	2,950	100.0	1,757	59.6	138	4.7	358	12.1	697	23.6
as of January 1, 2011	2,957	100.0	1,840	62.2	136	4.6	336	11.4	645	21.8
as of December 31, 2011	2,822	100.0	1,619	57.4	112	4.0	272	9.6	819	29.0
as of January 1, 2013 <sup>b</sup>	2,337/ 2,356	100.0	1,256/1,257	53.7/53.3	100/106	4.3/4.5	227/228	9.7/9.7	754/765	32.3/32.5
as of January 1, 2014	2,113	100.0	1,000	47.3	95	4.5	224	10.6	794	37.6
as of January 1, 2015	1,928	100.0	861	44.7	90	4.7	203	10.5	774	40.1
as of January 1, 2016 <sup>c</sup>	1,704	100.0	765	44.9	93	5.4	172	10.1	674	39.6
as of January 1, 2016 <sup>e</sup>	1,557	100.0	816 <sup>e</sup>		52.4 <sup>e</sup>		174	11.2	567 <sup>f</sup>	36.4 <sup>f</sup>
as of July 1, 2016 <sup>e</sup>	1,571	100.0	711 <sup>e</sup>		45.3 <sup>e</sup>		189	12.0	671 <sup>f</sup>	42.7 <sup>f</sup>

<sup>a</sup> – number of JSCs, as stated in the privatization program for 2010–2013;

<sup>b</sup> – the numerator is the number of JSCs as stated in the privatization program for 2014–2016, the denominator is the number of JSCs and LLCs, as stated in Rosimushchestvo's Annual Report for 2013;

<sup>c</sup> – number of JSCs, as stated in the privatization program for 2017–2019 (the data based on OKVED Codes refer to companies with shares (or stakes) in federal ownership);

<sup>d</sup> – number of JSCs with shares in federal ownership, based on data released by Rosstat;

<sup>e</sup> – total number of JSCs with shares in federal ownership amounting to more than 50% (the number of JSCs in full state ownership (with 100% federal stakes not being specified), and their relative share);

<sup>f</sup> – estimated value, based on data on the total number of JSCs with federal stakes and the number of such JSCs in other categories relative to the size of federal stakes in their charter capital.

*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; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2017–2019; *Rosimushchestvo's* Annual Reports for 2010–2015, www.rosim.ru; statistical data based on public property management efficiency estimates, www.gks.ru, March 20, 2016, September 5, 2016; own calculations.

The most notable decline was demonstrated by the number of JSCs in full state ownership (where the state stake amounted to 100% of their charter capital): by 39% relative to 2013, and by 56.5% since 2010. A nearly similar drop relative to early 2010 (by 52%) was observed in the group of JSCs with blocking state stakes (amounting to between 25% and 50% of their charter capital), although it was by far less steep relative to early 2013 (approximately by 24%). The number of JSCs with controlling state stakes (amounting to between 50% and 100% of their charter capital) shrank by 7% relative to 2013 and by 1/3 relative to early 2010. The least decline could be seen in the group of JSCs with minority state stakes (amounting to 25% or less of their charter capital) - by 10.6% relative to early 2013 and by 3.3% relative to early 2010.<sup>1</sup>

As a result, the distribution of JSCs depending on the size of federal stake in their charter capital changed significantly. While as of January 1, 2010, and January 1, 2013, the percentage of companies where the State was able to exercise full corporate control<sup>2</sup> was more than 64% and 58% of all JSCs with RF stakes in their capital, by early 2016 this index had dropped by nearly half of their total number. In 6 years (2010–2015), the share of JSCs with blocking state stakes shrank from approximately 12% to 10% (in early 2013 – 9.7%). The percentage of JSCs with minority state stakes, on the contrary, was constantly on the rise, increasing from 23.6% in 2010 to more than 32% in 2013, and to nearly 40% in early 2016. Incidentally, the most favorable structure of this group of JSCs depending on the size of federal stake was noted in early 2011 - that is, at the moment of a switchover to three-year privatization programs. In this connection, one cannot overlook the differences in the total numbers of JSC with RF stakes in their capital and their by-group distribution depending on the size of their state stakes as stated in the new privatization program and as reported by *Rosstat* on the basis of its the System of Public Property Management Efficiency Estimates as of early 2016.

Some important information concerning the operation of economic societies with state participation could be derived from the year-end reports 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') published by *Rosimushchestvo* since 2012.

According to data provided by the Federal State Information System *FGIAS ESUGI* (Register of Assets Held by the Russian Federation) as of 1 August 2016, the Federal Property Register contained information on 1,593 JSCs with federal stakes, including 72 JSCs where the State held the special right to participate in a company's management granted by 'golden share'<sup>3</sup>. However, among these 1,593 companies, *Rosimushchestvo* could fully exercise its shareholder rights only in a total of 735 JSCs (or 46.1% of all JSCs vs. 52.6% in the summer 2015; vs. 54.7% in the summer 2014; vs. 57.7% in the summer 2013; and vs. 52.1% in the summer 2012).<sup>4</sup> From 2014 onwards, the percentage of companies where *Rosimushchestvo* was not restricted in

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<sup>1</sup> By early 2013, the number of JSCs with minority state stakes had by no means dropped in absolute terms relative to early 2010 - instead, it rose by 8%.

<sup>2</sup> An estimation based on the total number of JSCs with 100% and majority state stakes in their charter capital.

<sup>3</sup> Year-end 2015 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').

<sup>4</sup> The absence of restrictions on *Rosimushchestvo*'s ability to exercise its shareholder rights does not mean that the Agency indeed has nothing to do with the management of relevant companies run by sectoral FBEAs, the latter getting involved in that process on the basis of general principles and depending on the actual distribution of powers, as determined in the Provision 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') (approved by Decree of the RF Government dated December 3, 2004, No 738).

exercising its shareholder rights steadily declined, and by the summer 2016, for the first time in 5 years, it had shrunk to less than 50%.

The composition of the remaining group of 858 companies was as follows:

- economic 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) (349 units, or 21.9% of all JSCs);

- economic societies where the ownership rights to state stakes are delegated to other federal bodies of executive authority (FBEAs) and state corporations (for example, the RF Ministry of Defense, State Corporation *Rostec*, *Rosatom*, or JSCs operated under a trust management agreement) (297 JSCs, or 18.65% of all JSCs);<sup>1</sup>

- economic societies undergoing bankruptcy procedures (in the phase of a bankruptcy proceeding) (150 JSC, or 9.4% of all JSCs);

- economic societies undergoing a liquidation procedure (48 JSC, or 3.0% of all JSCs);

- economic societies currently with no stakes *de facto* in the ownership by the Russian Federation (for example, if an entity has been privatized, or transferred as a contribution to the charter capital of a vertically integrated structure (hereinafter – VIS)) (14 JSCs, or 0.9% of all JSCs).

*Table 3* shows how, in recent years, the relative shares of JSCs where *Rosimushchestvo* is restricted in its shareholder rights have been changing, with the reasons for such restrictions.

First of all, it should be noted that the number of JSCs, with regard to which *Rosimushchestvo* can exercise only a limited shareholder right, has declined on 2012 by almost 1/3 (or by nearly 400 units). The main factor behind this trend was the shrinkage (more than 16-fold) of the group of JSCs with no stakes *de facto* being owned by the Russian Federation, which happened due to the improved procedure of federal property record-keeping and its reliance on a hi-tech methodology, although in 2016 their number was found to be nearly 5 times higher than in 2013 (3 units – a record low in absolute terms).

The number of JSCs where the shareholder rights had been transferred to other subjects shrank by approximately 23%; and that of JSCs where state stakes amounted to less than 2% – by 20%. At the same time, the number of JSCs undergoing a proceeding in bankruptcy declined by only 4%, while the number of those undergoing a liquidation procedure – by nearly 13%<sup>2</sup>.

*Table 3*

**The movement and structure, in 2012–2016, of the group of joint-stock companies with federal stakes in regard to which *Rosimushchestvo* is restricted in exercising its shareholder rights**

Why shareholder rights are restricted	as of August 1, 2012	as of August 1, 2013	as of July 7, 2014	as of August 1, 2015	as of August 1, 2016
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<sup>1</sup> 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 RF 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.

<sup>2</sup> It should be noted that in the data for 2015–2016, this group also included JSCs undergoing a reorganization procedure.

	units	% of all JSCs	units	% of all JSCs	units	% of all JSCs	units	% of all JSCs	units	% of all JSCs
Total number of JSCs, of these	1,258	47.9	988	42.3	949	45.3	884	47.4	858	53.85
- state stake is less than 2% <sup>a</sup>	434	16.5	465/134 <sub>b</sub>	19.95	436/78 <sup>b</sup>	20.8	373/75 <sup>b</sup>	20.0	349/61 <sup>b</sup>	21.9
- shareholder rights transferred to other subjects <sup>c</sup>	387	14.75	316	13.55	302	14.4	291	15.6	297	18.65
- proceeding in bankruptcy	156	5.95	145	6.2	146	7.0	151	8.1	150	9.4
- liquidation procedure	55	2.1	59	2.5	57	2.7	60 <sup>d</sup>	3.2	48 <sup>d</sup>	3.0
- no stakes owned by RF <sup>e</sup>	226	8.6	3	0.1	8	0.4	9	0.5	14	0.9

<sup>a</sup> – 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);

<sup>b</sup> – the denominator is the number of JSCs where the Russian Federation simultaneously exercises the special right to participate in their management ('golden share');

<sup>c</sup> – JSCs operated by other bodies of executive authority, by state corporations, or by other companies under a trust management agreement;

<sup>d</sup> – including JSCs undergoing a reorganization procedure;

<sup>e</sup> – JSCs with state stakes that are *de facto* no longer registered as federal property (previously privatized, transferred to the charter capital of a vertically integrated structure, their issues of shares have not been registered, or they no longer operate due to their liquidation or reorganization), but the entry of information thereof in the Register has not yet been properly formalized.

Source: *Rosimushchestvo's* Year-end Reports 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') for 2011–2015; own calculations.

As a result, the percentage of JSCs with regard to which *Rosimushchestvo* can exercise only a limited shareholder right in the total number of JSCs with stakes in federal ownership increased in every category, the only exception being those JSCs where no stakes were *de facto* owned by the RF. The most numerous group is represented by JSCs where state stakes amount to less than 2%, their percentage increased from 16.5% in 2012 to nearly 22% in 2015, which is above the year-end index for 2011 (20%).

The percentage of companies where the State cannot exercise full corporate control has been shrinking not only due to the increasing percentage of those companies where state stakes amount to less than 2%, but also due to the changing privatization priorities with regard to those JSCs where *Rosimushchestvo* is not restricted in exercising its shareholder rights (*Table 4*).

The data presented in *Table 4* make it possible to identify the factor that has triggered the growth in the percentage of those companies where the State cannot exercise full corporate control due to an inadequate size of its stake.

*Table 4*

**The movement and structure of the group of JSCs relative to the size of state stakes in their capital and their inclusion in the forecast plans of federal property privatization for 2012–2016**

Date	Economic societies (JSCs and LLCs) where RF is shareholder (or participant)									
	total, units	share, %	of these, with RF stake in charter capital amounting to							
			100%		50–100%		25–50%		2–25%	
			units	%	units	%	units	%	units	%
as of August 1, 2012										
- JSCs, in regard to which <i>Rosimushchestvo</i> is not restricted in	1,371/ 2,629**	100.0	886	64.6	76	5.55	211	15.4	198	14.45

## RUSSIAN ECONOMY IN 2016

### trends and outlooks

exercising shareholder rights *											
<b>as of August 1, 2013</b>											
- JSCs, in regard to which <i>Rosimushchestvo</i> is not restricted in exercising shareholder rights *	1,345/ 2,333**	100.0	874	65.0	83	6.15	185	13.75	203	15.1	
- JSC, included in forecast plans of federal property privatization ***	975	100.0	716	73.4	41	4.2	116	11.9	102	10.5	
<b>as of July 7, 2014</b>											
- JSCs, in regard to which <i>Rosimushchestvo</i> is not restricted in exercising shareholder rights *	1,147/ 2,096**	100.0	709	61.8	66	5.8	171	14.9	201	17.5	
- JSC, included in forecast plans of federal property privatization ***	842	100.0	596	70.8	36	4.3	113	13.4	97	11.5	
<b>as of August 1, 2015</b>											
- JSCs, in regard to which <i>Rosimushchestvo</i> is not restricted in exercising shareholder rights *	980/ 1,864**	100.0	589	60.1	55	5.6	142	14.5	194	19.8	
- JSC, included in forecast plans of federal property privatization ***	668	100.0	469	70.2	18	2.7	90	13.5	91	13.6	
<b>as of August 1, 2016</b>											
- JSCs, in regard to which <i>Rosimushchestvo</i> is not restricted in exercising shareholder rights *	735/ 1,593**	100.0	469	63.8	48	6.5	91	12.4	127	17.3	
- JSC, included in forecast plans of federal property privatization ***	478	100.0	336	70.3	14	2.9	56	11.7	72	15.1	

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

\*\* the denominator is the total number of JSCs, as entered in the Federal Property Register;

\*\*\* only of those where *Rosimushchestvo* is not restricted in exercising its shareholder rights.

Source: *Rosimushchestvo's* Year-end Reports 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') for 2011–2015; own calculations.

The case in point is that in the category of economic societies where *Rosimushchestvo* is not restricted in exercising its shareholder rights, the percentage of economic societies with 100%, controlling and blocking stakes held by the State in the group of those included in the privatization programs the periods 2011–2013 and 2014–2016 was higher, as a rule, than the percentage of companies with minority state stakes. No more than half of the latter were included in the forecast plans of federal property privatization, while the inclusion index for



those with 100% state stakes was 80% or higher, for those with controlling state stakes – approximately 50% or higher<sup>1</sup>, and for those with blocking state stakes – above 60% (*Table 5*).

*Table 5*

**The percentage of JSCs included in the forecast plans of federal property privatization, relative to the total number of economic societies in regard to which *Rosimushchestvo* is not restricted in exercising its shareholder rights, by their state stake size, in 2012–2016, %**

Date	Full ownership (100%)	Controlling stake (50–100%)	Blocking stake (25–50%)	Minority stake (2–25%)
as of August 1, 2013	81.9	49.4	62.7	50.2
as of July 7, 2014	84.1	54.5	66.1	48.3
as of August 1, 2015	79.6	32.7	63.4	46.9
as of August 1, 2016	71.6	29.2	61.5	56.7

*Source: Rosimushchestvo's Year-end Reports 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') for 2011–2015; own calculations.*

The year 2016 saw a slight adjustment of that trend: the percentage of companies with minority state stakes included in the privatization program rose above 50% (to approximately 57%), while at the same time being lower than the corresponding index for companies with 100% state stakes (approximately 72%) and blocking state stakes (61.5%); however, the inclusion index for companies with controlling state stakes was less than 30%.

If we take a broader look at the first data yielded by the System of Public Property Management Efficiency Estimates (for 2016), because they encompass other levels, and not only the federal level, and compare them with the public sector monitoring data collected by *Rosstat* until 2015, the following picture will emerge (*Table 6*).

According to data collected within the framework of the new system, by mid-2016 the total number of economic subjects belonging to the public ownership category amounted to approximately 65,200 units, which is by 1,600 units higher than the corresponding index derived two years earlier on the basis of public sector monitoring, but by approximately 1,800 units lower than the index for early 2013.

If we take the comparable categories of economic subjects, it becomes obvious that the number of state institutions had increased by approximately 2,700 units (or by 5%) compared with the latest previously derived data for mid-2014 based on the public sector monitoring methodology,<sup>2</sup> while the number of unitary enterprises declined by approximately 250 units (or by 6%).

*Table 6*

**The number of organizations operating in the public sector of the economy on the records of *Rosimushchestvo*, its territorial branches, and the bodies responsible for the management of public property held by RF subjects in 2013-2014, and the number of economic subjects fully or in part in public**

<sup>1</sup> The year 2015 was an exception, when the proportion of companies with controlling state stakes included in the privatization program did not exceed 1/3.

<sup>2</sup> The last bulletin of the developments in the public sector of the RF economy covered the period January–September 2014; however, for a medium-term analysis, the data for H1 2014, released as of 1 July 2014, are quite suitable.

**ownership, as of January 1 and July 1, 2016 (as entered in State registration records), by their organizational legal form**

Date	Total	FSUEs, including treasury enterprises	State institutions	Economic societies where shares (or stakes) amounting to more than 50% of charter capital are owned by	
				State	economic societies operating in public sector
as of January 1, 2013	67,003*	4,891	56,247	3,501	2,364
as of July 1, 2013	66,131*	4,589	56,100	3,201	2,241
as of January 1, 2014	64,616*	4,408	54,699	3,097	2,412
as of July 1, 2014	63,635*	4,236	54,173	2,988	2,238
as of January 1, 2016	65,587**	4,284	56,693/56,649***	3,888****	...
as of July 1, 2016	65,218**	3,982	56,893/56,856***	3,718****	...

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

\*\* including economic subject with an organizational legal form other than unitary enterprise, state institution, or joint-stock company (production and consumer cooperatives, associations (unions), housing cooperatives, foundations, public companies, etc.);

\*\*\* less state academies of sciences and private institutions, which are listed as institutions in the new System, but nevertheless must not be taken in account here in order to ensure a correct analysis;

\*\*\*\* total number of economic societies, the size of their state stake (or share) being irrelevant; data concerning the number of economic societies with controlling state stakes are available only for JSCs with federal stakes.

Source: On the development of the public sector of the economy of the Russian Federation in 2012 (pp. 7–11), in H1 2013 (pp. 7–11), in 2013 (pp. 7–11), in H1 2014 (pp. 7–11), M., *Rosstat*, 2013–2014.; Statistical information on public property management efficiency estimates, [www.gks.ru](http://www.gks.ru), March 20, 2016, September 5, 2016.

At the same time, the number of state institutions by mid-2016 had been found to be even higher than 3 years earlier. It difficult to offer any conclusions concerning joint-stock companies, because the data for this category derived in the old and new record-keeping systems are incomparable. It can only be said that their total number by mid-2016 (approximately 3,700 units) had exceeded the number of those JSCs where the State held a controlling stakes as of early 2013 (3,500 units).

As far as the changes that occurred within a shorter period of time are concerned, over H1 2016 the number of unitary enterprises shrank by more than 7%, and that of JSCs – by 4.4%, while the number of state institutions slightly increased (by less than 0.5%).

### 6.1.2. Privatization policy

2016 was the final 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 was 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 prevailing legislation on privatization in the spring 2010. As it had been the case with the previous privatization program, numerous adjustments and alterations soon began to be introduced into the new document as well. Since the moment of approval of the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016, a total of 90 normative legal acts (NLA) pertaining to these issues were adopted, of which 37 were issued in 2015, 22 in 2014, and another 3 in December 2013. So, by the number of legislation adjustments (the introduction of 28 NLAs), last year clearly fell behind the previous one, but was still ahead of the preceding year-and-a-half period (2014 and H2 2013).

The most significant among these adjustments was the entry, in May 2016, of JSC *Bashneft* on the list of biggest companies to be privatized only by special presidential and governmental decisions; the sale of a controlling stake in *Bashneft* in mid-October was one of the three major privatization deals finalized last year.

The main actor in two of those deals was Rosneft, with regard to which in the privatization program for 2014–2016 it had been specified that by 2016, the stake held in the charter capital of OJSC *Oil Company Rosneft* by OJSC *Rosneftegaz* was to be reduced to 50% + 1 share. That deal was completed towards the end of 2016, in the form of a transfer of 19.5% of shares in Rosneft, to the value of € 10.5bn, to an alliance of foreign investors - Glencore (*Swiss-based company*) and the *Qatar sovereign wealth fund*.

However, in contrast to the sale of *Bashneft*, the money generated by the *Rosneft* deal were transferred to the federal budget not directly, but in the form of dividends on shares in OJSC *Rosneftegaz*, the latter being *Rosneft's* parent company, so would be more correct to treat this one as a quasi-privatization deal that belongs rather to the domain of managing the public sector of the economy. By the amendments to the law on federal budget for 2016 introduced in late November, Article 21 was augmented by Part 17, whereby it was envisaged that in the event of alienation by OJSC *Rosneftegaz*, of its shares in OJSC *Oil Company Rosneft*, the entire amount of proceeds of that sale received by OJSC *Rosneftegaz* was to be transferred, in 2016, to the federal budget to offset the dividends payable on shares in 2017 and the year-end dividends for 2016.

The deals of sale of shares in *Rosneft* was to generate federal budget revenue in the amount of RUB 710.8bn. The said sum, by Directive of the RF Government of November 3, 2016, No 2330-r was determined to be the price of the stake in *Rosneft* (RUB 748.26bn), adjusted by the application of the correction factor 0.95, by recommendation of the investment consultant commissioned by OJSC *Rosneftegaz*. By a later by Directive of the RF Government, of December 7, 2016, No 2613-r, new alterations concerning the price of the deal were introduced. The subsequently issued directives to state representatives in the board of directors of OJSC *Rosneftegaz* (as of December 7, 2016, No 93688p-P13) required the alienation of shares in Rosneft at the price that had been set during the trading session on the MICEX as of 6 December, with the application of the same correction factor (0.95), thus further reducing the price of the stake earmarked for sale to RUB 692.39bn.<sup>1</sup>

The difference between the said amount and the initially established target of RUB 710.8bn was to be covered by the transfer, to the federal budget, of the interim dividends payable on shares for the three-quarter period of 2016 in the amount in excess of RUB 18.4bn. The relevant decision was adopted in accordance with Directives of the RF Government of December 12, 2016, No 9488p-2016 and *Rosimushchestvo's* Directive No 1000-r, also dated December 12, 2016, 'On the resolutions of the extraordinary general meeting of OJSC *Rosneftegaz*, the latter issued in accordance with the decision of the board of directors of OJSC *Rosneftegaz*.<sup>2</sup>

As for the deal involving the sale of a controlling stake in JSC *Bashneft* (50.08% of charter capital), that stake was bought by Rosneft for RUB 329.69bn. The price had been determined on the basis of a report submitted by VTB Capital and evaluated by experts employed by a self-regulatory organization, the latter having been appointed the sole executor (agent) of the government order for the alienation of shares in JSCs. The terms of the deal were approved by

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<sup>1</sup> www.rosim.ru, December 12, 2016.

<sup>2</sup> 2016 Report on the implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016.

Directive of the RF Government of October 10, 2016, No 2130-r, whereby it was stipulated, among other things, that the agent's commission was to be paid by way of an additional budget allocation after the introduction of alterations in last year's federal budget or the approval of the new 3-year federal budget for 2017–2019.<sup>1</sup>

The afore-said two deals in the oil industry, completed in Q4 2016, were preceded by a sale of shares in JSC *Alrosa* (10.9%) in July 2016. Since February 2014, this was the first privatization deal involving a company listed in the first section of the Forecast Plan (Program) of Federal Property Privatization, for which the issuance of a special privatization decision was required.

On the official level, that deal has been viewed as a successful one, because it took place in a very unfavorable financial and economic situation, had been prepared exclusively by Russian specialists, and the closing price had a minimum discount (less than 4%).<sup>2</sup> In the RF Government's Directive of July 11, 2016, No 1479-r both the buyer (VTB Capital Plc) and the price per share (65 RUB/unit) were clearly indicated, with an additional provision that the commission to the agent (CJSC *Sberbank CIB*) was to be paid by way of an additional budget allocation after the introduction of alterations in last year's federal budget or the approval of the new 3-year federal budget for 2017–2019. The government also assumed the obligation to abstain, for a half-year period, from any further sale of shares in federal ownership.

The budgetary effect of that deal may be valued at RUB 52.18bn, which is much more than the amount of revenue generated by the public offer, in autumn 2013, of shares in JSC *Alrosa* to a broad range of potential investors in accordance with international standards (the organizer of that transaction had been *Goldman Sachs, Inc.*). At that time, in the course of trading on the MICEX, the offer included 7% of shares in JSC *Alrosa* (in federal ownership), 7% of shares owned by the Republic of Sakha (Yakutia), and 2% of quasi-treasury shares controlled by the company itself (a total of 16%), to the total value of RUB 41.3bn, including RUB 18bn paid for the alienation of federal right of ownership to the 7%-stake. It is noteworthy that the bidding period was very short (from 6 to 11 July), and the offer was from the very start oriented to entities affiliated with public companies, and this was evidently reflected in the choice of the buyer.

So, the three major deals closed in 2016 generated a total of RUB 1,092.675bn for the budget of the Russian Federation; if we add here two more deals completed in 2014 (the sale of its stakes in OJSC *Inter RAO EES* (to the value of RUB 18.796bn) and *Arkhangelsk Trawl Fleet* (to the value of RUB 2.2bn), the total yield of the second 3-year privatization program<sup>3</sup> would amount to approximately RUB 1,113.7bn.

It should be noted that the first 3-year privatization program for 2011–2013 had envisaged potential budget revenue to be generated by major privatization deals in the amount of RUB 1 trillion. In this connection, over the period 2011–2013, a total of 13 deals involving shares in biggest joint-stock companies were completed with the aid of investment consultants, which is 2.6 times more than the number of deals completed in 2014–2016. However, their total value was less by nearly half (RUB 585bn). But for the *Rosneft* deal, completed in late 2016, the total yield of the first 3-year privatization program would have been unquestionably higher, because then the total value of biggest deals effectuated over the period 2014–2016 would have been approximately RUB 402,9bn.

<sup>1</sup> www.economy.gov.ru, October 10, 2016.

<sup>2</sup> www.rosim.ru, July 12, 2016.

<sup>3</sup> In 2015, no such deals were attempted due to the unfavorable financial and economic situation.

The mechanisms of the deals have also demonstrated some radical changes. While 3 of the 13 deals accomplished in the period 2011–2013 had no direct budgetary effect, because they were aimed at reducing the stakes held by the State or state-controlled JSCs in the capital of relevant companies: two of them represented an additional issue of shares (OJSC *United Grain Company* (UGC), in 2012, to the value of RUB 5.951bn; and *VTB Bank*, in 2013, to the value of RUB 102.5bn); the other deal involved the sale, by OJSC *Rosneftegaz*, of 5.66% of its shares in OJSC *Rosneft* to BP to the total value of RUB 148.1bn in the framework of another deal - the purchase by *Rosneft* itself of shares in TNK-BP. The total value of these three deals (RUB 256.6bn) accounts for approximately 44% of the entire yield of biggest privatization deals.

All the biggest deals completed over the period 2014–2016 generated significant budget revenue, including the *Rosneft* deal closed in late 2016. By its formal attributes, the latter resembles the 2013 deal, but the specially issued normative provisions have ensured that it help replenish the federal budget in a very tricky situation in the Russian economy. It also has some similarities with the transfer to the federal budget, by the RF Central Bank in 2012, of part of the proceeds of sale of shares in *Sberbank* (to the value of RUB 159.3bn), in an amount determined as the difference between the proceeds of sale and the balance-sheet value of the sold assets, less the transaction costs; the part of the RF Central Bank's year-end profits for 2012 that was due to be transferred to the federal budget, was reduced by the said amount of proceeds.

The implemented project envisaging the consolidation of airport assets at Sheremetyevo and Vnukovo yielded no budget revenue, either. It should be reminded that the privatization program for 2014–2016, in accordance with the decisions of the RF President and the Government concerning the strategic development of Moscow's airport system, had envisaged the government's withdrawal from the capital of OJSC *Sheremetyevo International Airport*, OJSC *Vnukovo Airport*, and OJSC *Vnukovo International Airport*.

In February 2016, after the issuance, in August 2015, of RF President's Executive Order, the RF Government adopted the relevant directives and signed shareholder agreements with private shareholders, whereby the government was to retain the right of exercising necessary control over the activities of the united airport system and of participating in key decision-making. With due regard for the value of property contributed by each party, the state stake in the capital of newly established OJSC *Sheremetyevo Airport* was to amount to approximately 31.6%, and that in the capital of OJSC *Vnukovo International Airport* – to 25.1%, that is, slightly above the preliminarily established government corporate control threshold in the amount of a blocking stake<sup>1</sup>.

As far as OJSC *Vnukovo International Airport* is concerned, its charter capital has already been formed by *Rosimushchestvo* and the private shareholders. The state stake represented the transfer of shares in OJSC *Vnukovo Airport* (74.74% of shares), and the stakes of the four private shareholders contributed property specified in Directive of the RF Government of February 13, 2016, No 217-r.<sup>2</sup> The terms that were stipulated in the shareholder agreement, in accordance with that Directive, included the right of the Russian Federation to appoint 3 representatives to the board of directors; the right to coordinate the procedures for private shareholders to vote at a general shareholder meeting on certain issues stipulated in the

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<sup>1</sup> www.rosim.ru, February 15, 2016; February 29, 2016.

<sup>2</sup> Various assets, including shares amounting to a controlling stake and 100% stake in the charter capital of 2 companies (JSC and LLC) whose activities are related to the functioning of the airport complex; money to the total value of more than RUB 5.6bn; non-residential premises at Vnukovo.

shareholder agreement; the rights and obligations of each party in an event of alienation of shares, the procedures for determining the price of shares, and the events that may give rise to the the effectuation of these rights. In accordance with the Bank of Russia's decision as of November 10, 2016, the State registration of the report on the additional issue of ordinary shares in OJSC *Vnukovo International Airport* was effectuated, the state stake in its capital amounting to 25.12%, as planned.<sup>1</sup>

The Russian Federation and LLC *Sheremetyevo Holding*, while setting up new JSC *Sheremetyevo Airport*, proceeded as follows. LLC *Sheremetyevo Holding* transferred to its charter capital the property entities envisaged in the RF Government's Directive of February 11, 2016, No 201-r<sup>2</sup>, while the government transferred its shares in OJSC *Sheremetyevo International Airport* amounting to 83.038% of the total number of placed shares.

LLC *Sheremetyevo Holding* and the Russian Federation signed a shareholder agreement as of February 15, 2016, whereby additional rights were granted to the government by way of participating in the management of the newly established JSC *Sheremetyevo Airport* and OJSC *Sheremetyevo International Airport*, including the election of representatives in their boards of directors and the coordination of voting procedures for private shareholders on certain issues, as determined in the shareholder agreement, at general shareholder meeting of JSC *Sheremetyevo Airport* and OJSC *Sheremetyevo International Airport*. Among the terms of the agreements determined by the government directive are the rights and obligations of each party arising in an event of alienation of shares, the procedures for determining the price of shares, and the events that may give rise to the effectuation of these rights. During the reorganization of the companies, their shares were valued, and preparations were carried out for the extraordinary general shareholder meeting where the reorganization issues were to be settled.

In this case, in contrast to the situation around OJSC *Vnukovo International Airport*, all the necessary procedures will be completed only in 2017. These procedures will be as follows: the reorganization of OJSC *Sheremetyevo International Airport* in the form of its merger with JSC *Sheremetyevo Airport*; the increase of its charter capital by way of an additional issue of shares as a result of its reorganization; and the introduction of the relevant alterations in the government list of strategic joint-stock companies concerning the size of its stake in the charter capital of OJSC *Sheremetyevo International Airport*. Besides, the terms of shareholder agreement stipulated in the said government directive are more difficult to implement, in particular the private shareholder's obligation to create certain immovable property entities.

According to the Report on Federal Budget Execution as of January 1, 2017 (internal sources of deficit financing) posted to the Federal Treasury's website, the total amount of revenues generated by sales of shares and other forms of participation in corporate capital, was RUB 406,795.2m, which resulted in a slight surplus over the budget target (by 0.4%).

This sum represents a total of all the deals involving state stakes, and it is higher than the privatization-generated revenue target for that year stipulated in the explanatory note to the government's draft of the law on federal budget for 2017–2019, where it amounts to RUB 381.6bn (vs. RUB 33.2bn, as referred to in connection with Law No 359-FZ<sup>3</sup>). It also

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<sup>1</sup> www.rosim.ru, 31.12.2016.

<sup>2</sup> 9 assets, represented in the main by shares amounting to a controlling stake and 100% stake in the charter capital of 2 companies (JSC and LLC) whose activities are related to the functioning of the airport complex at Sheremetyevo.

<sup>3</sup> Meanwhile, in the text of Federal Law on the Federal Budget for 2016, of December 14, 2015, No 359-FZ (as amended on 22 November 2016, No 397 FZ) there is no mention of any specific information concerning the

incorporates privatization-generated revenues other than the proceeds of major deals. Every year, in the course of implementation of the privatization program for 2014–2016, *Rosimushchestvo* received somewhat overestimated planned targets. While the target for the privatization program's first year was the same as stipulated in the forecast plan itself (RUB 3bn), for the second year it was increased to RUB 5bn. In 2016, this target had already been achieved by mid-year (RUB 5.046bn, the period-end result for H1)<sup>1</sup>, thus making possible a jump over the annual target, which was higher (RUB 8.5bn).

The final year of the second privatization program was also the most successful one in some other respects. In 2016, there was a huge (approximately threefold) growth, on the previous year, in the total number of asset sales. The total number of completed deals increased from 141 to 461, or approximately 3.3 times (in 2014 – 119 deals).

In 2016, 179 stakes (or shares in charter capital) in JSCs to the total value of RUB 9.47bn were sold, while in respect of 60 federal state unitary enterprises (FSUEs) the relevant decisions concerning the terms of their privatization were taken. The number of sold stakes (or shares in charter capital) increased relative to 2015 (103 units) by nearly 3/4, thus rising above the (pre-crisis) year-end result of 2013 (148 units). The growth in deal value (RUB 9,473.3m) was more modest (less than 30%), although this figure was still higher than the year-end result of 2014 (RUB 8,020.12m).

The cases when the final asset price was higher than the initial offer were few. One example is the sale of 100% stake in OJSC *Kuzbass*, when the price rose from RUB 67m to RUB 153m in the course of a bidding with 9 participants. The selling price was higher than the initial offer price for the federal shares in JSC Research Institute of Metallurgical Heat Engineering and for shares in several road maintenance companies. The independent (non-governmental) seller that closed all these deals was *Auction House of the Russian Federation (RAD OJSC)*.<sup>2</sup>

Thus, the steadily downward trend, observed since 2012, in the number of sold state stakes (or shares in charter capital) was reversed; there was also a surge in the previously relatively stable privatization rate in the sector of unitary enterprises, if we also consider those that were subject to special government directives. Their annual number over the period 2013–2015 hovered around 25–35 (*Table 7*).

In the framework of the forecast plan of federal property privatization for 2014–2016, a total of 1,529 state stakes in JSCs and 974 immovable property entities were put up for sale. Over the 3-year period, the completed deals of sale of stakes (or shares) in JSCs other than biggest ones generated revenue in excess of RUB 24.8bn, of which RUB 8,020.12m was received in 2014, RUB 7,342.29m in 2015, and RUB 9,473.3m in 2016.

*Table 7*

**The comparative data on the movement of the number of privatization deals involving federal state unitary enterprises and federal stakes in 2008–2016**

Period	Number of privatized enterprises (entities) formerly in federal ownership (data released by <i>Rosimushchestvo</i> )		
	privatized FSUEs <sup>1</sup> , units	sold stakes in JSCs, units	Sold treasury property entities, units
2008	213	209 <sup>2</sup>	...

revenue amount to be generated by sales of shares or other forms of participation in corporate capital in federal ownership. The figure of RUB 33.2bn was specified in the explanatory note to the government's draft of the law on federal budget for 2016.

<sup>1</sup> www.rosim.ru, July 11, 2016.

<sup>2</sup> www.economy.gov.ru, November 30, 2016.

## RUSSIAN ECONOMY IN 2016

### trends and outlooks

2009	316+256 <sup>3</sup>	52 <sup>2</sup>	...
2010	62	134 <sup>2</sup>	...
2008–2010	591+256 <sup>3</sup>	395 <sup>2</sup>	4
2011	143	317 <sup>5</sup> /359 <sup>2</sup>	3
2012	47 <sup>6</sup>	265 <sup>5</sup>	40
2013	26	148 <sup>5</sup>	22
2011–2013	216	730 <sup>5</sup>	65
2014	33	107 <sup>5</sup>	12
2015	35 <sup>7</sup>	103 <sup>5</sup>	38
2016	60 <sup>7</sup>	179 <sup>5</sup>	282
2014–2016	125 <sup>7</sup>	389 <sup>5</sup>	332

<sup>1</sup> all preparatory work is completed, and the relevant decisions concerning the terms of privatization are issued;

<sup>2</sup> including those stakes which were put up for sale in the previous year;

<sup>3</sup> the number of FSUEs in respect of which the decisions concerning their reorganization into JSCs were made by the RF Ministry of Defense, in addition to those cases where a similar decision was made by *Rosimushchestvo*;

<sup>4</sup> according to available information concerning sales of other property entities over that period, 4 immovable military property entities were sold between October 2008 through January 2009; and there were decisions, in late 2010, concerning some other property entities to be put up for sale and the terms of their privatization, the deals being actually closed in 2011;

<sup>5</sup> less sales of shares with the participation of investment consultants;

<sup>6</sup> 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 OJSCs (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;

<sup>7</sup> for several enterprises, the decisions concerning the terms of their privatization were abolished in 2015–2016 and then readopted, so the number of FSUEs with regard to which privatization decisions were made individually over the three-year period is somewhat higher than in the tabulated period-end data for 2014–2016 (125 units).

Source: *Rosimushchestvo*'s annual report for 2008; Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2009, Moscow, 2010; Report of the RF Ministry of Economic Development on the Results of Federal Property Privatization in 2010; Report of The RF Ministry of Economic Development on the Results of Federal Property Privatization in 2011; Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2011–2013; 2014 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016, www.rosim.ru, February 19, 2015; 2015 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016, www.rosim.ru, February 8, 2016; 2016 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016.

The highest contribution to this financial result was generated by the sale of 88 stakes (out of a total of 213 stakes earmarked for sale<sup>1</sup>) to the total value of RUB 12.3bn (49.6% of total proceeds), accomplished by *RAD* OJSC. The year-end result of 2016 (RUB 6.1bn) is somewhat similar to the total result of the two previous years (2014 – RUB 0.9bn; 2015 – RUB 5.3bn), while the number of actually sold stakes (48 units) is much higher (vs. 6 in 2014, and 34 in 2015). Another 3 deals (out of a total of 11 stakes earmarked for privatization to the value of RUB 623.2m (2.5% of total proceeds) were closed by *VEB Capital* Plc.

Thus, independent sellers produced more than half of all revenues (52%), although they actually sold less than 1/4 of all the realized stakes. *Rosimushchestvo*'s territorial agencies sold more stakes (118 units), but earned only RUB 1.32bn (or 5.3% of the total). The other deals were closed by *Rosimushchestvo*'s central apparatus. However, its role in privatization deals was gradually diminishing. Thus, in H1 2016, out of a total of 75 sold stakes in JSCs to the vale

<sup>1</sup> The stakes in 6 JSCs, which had been initially earmarked for sale, were then taken off the privatization program's list. Beside stakes in JSCs, *RAD* OJSC was also commissioned to sell 81 immovable property entities, of which 12 units to the symbolic value of RUB 39.9m were actually sold.



of RUB 5.046bn, the central apparatus actually closed only 5 deals to the value of RUB 210.8m (4,2%).<sup>1</sup>

In effect, an entirely new organizational mechanism for the sale of property earmarked for privatization has emerged, where an ever-increasing revenue inflow is created by independent sellers, while *Rosimushchestvo*'s territorial agencies, which in 2014 were granted the powers to sell shares in JSC and other assets, have still been selling a large number of property units.

The privatization program for 2014–2016 was implemented in conditions of plummeting investment demand in response to highly volatile world markets, a slowdown in the economic growth rate followed by a slump in the Russian economy, and rising costs in the lending market, which reduced the resources available for investment. The phenomena typical of the privatization process persisted, including low demand for the assets earmarked for privatization. Thus, for example, in 2016, 9 out of every 10 auctions were canceled due to the absence of any bids.

However, the systemic measures implemented by *Rosimushchestvo* and its territorial agencies in 2014–2016, including the preparation for privatization of new property entities, their marketing among potential buyers, improvement of the sale procedure (the attraction of independent sellers and more active use of regional trading floors by the territorial agencies, the launch of electronic sales), and the provision of a more in-depth information backing in face of dwindling investment activity resulted in a boost of the volume of sales and generate higher revenues, thus exceeding the ever-increasing annual privatization-generated revenue targets.

In spite of the significantly reduced investment demand, the quality, transparency and openness of privatization procedures had increased, which boosted the competition for assets. Over the three-year period (2014–2016), the biddings for the right to buy privatized shares (or stakes in charter capital) were participated by a total of 1,740 individuals and organizations, including 1,021 in 2016. The average number of bidding participants in each completed privatization deal in 2016 nearly doubled relative to 2015, rising to just under 6. This figure (5.7) represents a record high of the entire 3-year privatization program period; the previous record high was seen in 2012 (4.5).

A real breakthrough was observed with regard to privatization of RF treasury property. The number of privatized treasury property entities jumped manifold relative to the privatization program's initial version (from 94 to nearly 1,600), peaking in 2015–2016. This marked a change in the entire structure of privatized property and a switchover from the privatization of shares in economic societies that acted as property owners, to the privatization of immovable property entities as separate units.

In 2016, the number of sold treasury property entities (282 units) rose on 2015 (38 units) approximately 7.4 times (vs. 12 units in 2014). For the first time, it exceeded the number of sold stakes (or shares) in economic societies, although the total number of the latter over the entire period 2014–2016 was actually higher. The results of sales of 172 treasury property entities will be summed up in Q1 2017.

The value of the deals to be completed on the basis of biddings for RF treasury property entities put up for sale increased nearly 26-fold (to RUB 1.27bn). Over the two previous years it had never risen even to RUB 50m. Such a result can in part be explained by the sale, at an auction, of the property entity that represented the biggest bid of the past 6 years (a 1.27-hectare land plot in the capital, complete with property entities). The deal value was RUB 602.316m

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<sup>1</sup> www.rosim.ru, July 11, 2016.

(or more than 47% of the entire value of completed deals), although the starting price increased by less than 1% (or by only RUB 5m)<sup>1</sup>.

Over the course of 2016, out of 517 immovable property entities put up for sale, approximately 55% (282 units) were actually sold. As seen by the results of the privatization program for 2014–2016, the sales of treasury property entities were more successful than those of shares in JSCs. While in the latter category, 389 units were sold in the course of 1,529 biddings (i.e., in order to sell one stake, approximately 4 biddings were necessary), the sales of 332 treasury property entities were accomplished through 974 biddings (i.e., one property entity was sold after approximately 3 biddings).

In 2014–2016, in the framework of implementation of 31 Presidential Executive Orders and 10 decisions of the RF Government concerning the creation or expansion of vertically integrated structures (VISs), *Rosimushchestvo* set out to establish or expand 19 VISs, of which 14 were completed. The 3-year privatization program launched in that sector listed a total of 52 FSUEs, shares in 158 JSCs, and 764 treasury property entities. As of late 2016, the relevant decisions concerning the terms of privatization were taken with regard to 30 FSUEs, 141 JSCs, and 702 treasury property entities.

Among the important developments over the course of last year, we may point to the launch of an electronic property sales mechanism.

One important development component of all these innovations is the mechanism of sale of state and municipal property. On the basis of recent amendments to the privatization law, the RF Government drew up, in December 2015, the list of 6 legal entities to be assigned the task of conducting electronic property sales.

This hi-tech innovation, which was envisaged in the privatization law as early as spring 2010, could actually be implemented only 6 years later. In 2012, the Provision on the organization and conduct of electronic sales of state and municipal property was approved; in 2013, the Requirements to technologies, software, linguistic, legal and organizational means to be used in building the website for conducting electronic sales were issued; and in late 2015, the List of electronic bidding floors (6 organizations) was drawn up.

In 2016, *Rosimushchestvo* signed contracts with each of the electronic bidding floors for the provision of gratis services pertaining to the organization and conduct of electronic bidding for the public assets put up for sale.

While carrying on its preparatory and organizational activities prior to the launch of electronic property sales, *Rosimushchestvo* held consultations with the Federal Antimonopoly Service and the RF Ministry of Economic Development in order to elaborate proper solutions that would comply with high standards and best practices of competition and accessibility. The distribution of lots among electronic floors is done at the meetings of industry-specific commissions, which are attended, for the sake of better transparency, of empowered representatives of each electronic floor, as well as representatives of the RF Ministry of Economic Development and the Federal Antimonopoly Service. The lots are distributed openly and randomly between all the listed electronic floors.

From November 2016 onward, *Rosimushchestvo* switched over to online offering of the assets earmarked for privatization, across all electronic floors. Towards the month's end, the bids for 8 treasury property entities (land plots with immovable property entities, non-residential premises situated in the city of Moscow, Moscow Oblast, and Perm Krai) began to

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<sup>1</sup> www.rosim.ru, December 1, 2016.

be accepted.<sup>1</sup> And in early 2017, the first property sales at online auctions were launched. In that format, 2 land plots in Perm, to the value of RUB 2.579m and RUB 4.992m respectively, and a number of non-residential premises in Moscow were sold, the selling price of the latter having risen 1/3 from RUB 19.841m to RUB 26.441m. *Rosimushchestvo* claims that the first experiences of online sales have demonstrated the expediency of electronic floors in organizing and conducting biddings, and their ease and accessibility for the participants based in different regions across the country<sup>2</sup>.

The online form is applied to the main privatization methods (auction, sale through public offer, and sale without announcement of a price). In early 2017, 97 lots were put up for online bidding, including 42 immovable property entities (of these, the sale of 25 property entities is handled by *RAD OJSC*) and shares in 55 joint-stock companies.<sup>3</sup>

Nevertheless, the outcome of the second 3-year privatization program (2014–2016) was much more modest, by the majority of its parameters, than the results achieved in the course of implementing the first program (2011–2013).

While over the period 2014–2016, the state stakes (or shares in charter capital) in a total of 389 JSCs and 332 treasury property entities were sold, and 332 treasury property entities, in respect of 125 federal state unitary enterprises (FSUEs) the relevant decisions were made concerning the terms of their privatization, the corresponding indices for the period 2011–2013 were as follows: 730 state stakes (or shares in charter capital) in JSCs (less the stakes put up for sale in 2010), 65 treasury property entities, and 216 FSUEs. The number of stakes or shares actually sold shrank by 47%, that of privatized FSUEs – by 42%. The revenues generated by the sales of stakes (or shares in charter capital) of JSCs other than biggest ones (more than RUB 24.8bn) were lower than in 2011–2013 (approximately RUB 25.7bn), even if we disregard the effect of inflation.

At the same time, the number of sold treasury property entities increased more than 5-fold. Some success was also achieved in involving certain strategic investors operating in a given sector in the acquisition of privatized companies, with a view towards their further development (*Arkhangelsk Trawl Fleet*, the Moscow airport system), although these can really be treated as true achievements only after the investors' compliance with their assumed obligations and the development of the assets have been properly monitored for some time.

The activities aimed at establishing vertically integrated structures (VISs) were likewise less impressive than expected. The number of VISs that had been fully formed, shrank 2.5 times: only 14 of them were created over the period 2014–2016, while in 2011–2013 there had been 34. An increase (1.5 times) in the number of integrated assets was observed only with regard to treasury property entities (702 units vs. 457 units), alongside a dramatic plunge of number of FSUEs privatized in the framework of VIS (30 units vs. 148 units). The number of JSC whose shares are earmarked as contributions to their charter capital increased from 85 units to 141 units. However, it should be borne in mind that 2011–2013, additional decisions were taken concerning the terms of privatization of shares in another 76 OJSCs, that had previously been the FSUEs listed in the first 3-year privatization program.

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<sup>1</sup> www.rosim.ru, November 18, 2016; November 25, 2016.

<sup>2</sup> www.rosim.ru, January 23, 2017.

<sup>3</sup> 2016 Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016.

Of course, these results can largely be explained by the effects of the new economic and political situation that emerged in 2014. Prior to that, in 2011–2013, no crisis phenomena were manifest in the economy.

It would be more correct to make a comparison with the period that was similar in length, before the launch of 3-year privatization programs (2008–2010), which displayed an economic trajectory resembling the situation in 2014–2016 (the year 2008 saw the start of a crisis, with a dramatic halt of the growth rate, although due to some inertia the year-end index was still indicative of growth; in 2009, the slump began in earnest; and in 2010, there was an onset of post-crisis recovery growth).

The number of stakes sold in 2008–2010 (395 units)<sup>1</sup> and 2014–2016 (389 units) is roughly the same. Interestingly, in 2008–2010, minority stakes accounted for more than 1/4 of all sales (in 2014–2016 – less than 16%), while private sellers took no part at all in the privatization process. The number of privatized FSUEs (125 units) was 4.7 times lower than in 2008–2010 (591 units), even less those enterprises the relevant decisions with regard to which were made by the RF Ministry of Defense in 2009 (256 units). These facts clearly point to the very modest results of the second 3-year privatization program.

This year, a new privatization program for 2017–2019 has been approved. The third program has been elaborated with due regard for the more extended planning period of the forecast plan (program) of federal property privatization (from 1 to 3 years), on the basis of the amendments to the current privatization law introduced in spring 2010. The preparatory work proved to be too time-consuming. By early 2017, there had still been no finished document, in spite of the approval of the federal budget for 2017–2019.

After the approval of the relevant Directive at the RF Government meeting on February 2, 2017, the final version of the *Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2017–2019* was adopted by Directive of the RF Government as of February 8, 2017, No 227-r.

The main parameters of the *privatization program for 2017–2019* are as follows.

Structurally, it consists of two sections, just as the previous one. The first section puts forth the main standpoints of the government, the forecasted effects of privatization on structural changes in the Russian economy and the expected amount of federal budget revenue to be generated by sales of federal assets, the privatization plans for biggest companies that hold leading positions in their industries.

The government privatization policy goals are not stated directly in this document. Instead, there are references to the goals and tasks envisaged in the government program *Federal Property Management*, approved by Decree of the RF Government as of April 15, 2014, No 327, including further withdrawal of the State from participating in the economy, more efficient sale of federal stakes (or shares) in big JSCs in order to create better conditions for attracting investments, promotion of the stock market's development, and modernization and hi-tech upgrading of the economy.

The RF President's Executive Order of May 7, 2012, No 596 *On Long-term Government Economic Policy*, which was mentioned in the previous privatization program, envisaged that the State should completely withdraw, by 2016, from the capital of companies operating in the 'non-mineral' sector that are not natural monopolies or organizations belonging to the defense complex, is relied upon as the basic guideline, alongside the privatization law, for the

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<sup>1</sup> Including the stakes put up for sale in 2007.

elaboration of the new program in the context of continuity of the privatization process, in particular with regard to the inclusion, in the property privatization plan, of those federal property entities that were not fully privatized during the previous planning period.

The exceptions from the category of companies that the State plans to withdraw from, as stipulated in the forecast plan of federal property privatization for 2017–2019, are as follows: (1) joint-stock companies and enterprises entered in the list of strategic organizations (2) minority state stakes in JSCs affiliated to the core companies of vertically integrated structures, so that these could later be transferred as contributions to the charter capital of the corresponding core JSCs of vertically integrated structures, and (3) organizations registered outside of the territory of the Russian Federation. While the first two groups are the same as were listed in the privatization program for 2014–2016, the third group is a new one, because previously the list of exception contained also 'singular' shares in federal ownership, the privatization of which would not be cost-effective for the federal budget.

As in the previous privatization program, the forecasted effects of property privatization on structural changes in the economy are outlined in a rather general way.

It described *de facto* the quantitative distribution, by type of economic activity, of the economic subjects in public ownership that are earmarked for privatization; there are no estimates (even in a general way) of the expected changes in the public sector's share, let alone of how privatization is going to influence output, employment, investments, innovations, the burden on the budget associated with public property, tax discipline, etc.

The list of biggest companies to be privatized by special decisions of the RF President and the RF Government, with due regard for the market situation and recommendations of eminent investment consultants, consists of only 4 companies from which the State is planning to withdraw (OJSC *Novorossiysk Commercial Sea Port*, OJSC *United Grain Company*, *Oka Non-ferrous Metals Processing Plant*, *Kristall Production Association*, and 3 companies where the state stakes will be reduced: in one (JSC *Alrosa*) – to 29% + 1 share, and in two (OJSC *Sovkomflot* and *VTB Bank*) – to 25% + 1 share. The previous privatization program for 2014–2016 listed 20 companies in that category, not mentioning *Rosneft*, in whose capital it was planned to reduce the stake held by its parent company, OJSC *Rosneftegaz*, a deal that was finalized in late 2016.

There are only two new assets that were absent from the two previous privatization programs, and these are *Oka Non-ferrous Metals Processing Plant* and *Kristall Production Association*. In the forecast plan of federal property privatization for 2014–2016, there were OJSC *United Grain Company* (state withdrawal from its capital), JSC *Alrosa* and OJSC *Sovkomflot* (state stake reduction to 25% + 1 share) and *VTB Bank* (state stake reduction to 50% + 1 share). Nearly all of these property entities had recently been involved in other privatization deals (additional issue of shares in OJSC *United Grain Company* in 2012, and in *VTB* - in 2013, public offer of shares JSC *Alrosa* in 2013 and 2016). The deal involving shares in OJSC *Sovkomflot* was postponed in 2015 due to the worsening macroeconomic situation, low investment activity, and the introduction of economic sanctions by some foreign states against several Russian companies. OJSC *Novorossiysk Commercial Sea Port* has also been listed in privatization programs several times, and the sole agent appointed by the government, way back in 2012, to organize the alienation of the federal stake in its capital was UBS Bank LLC.

By Directives of the RF Government, No 1223-r of June 15, 2016, and No 1649-r, August 3, 2016, *Renaissance Broker LLC* and *VTB Capital* respectively have been commissioned to

alienate the federal stakes in VTB Bank (10.9% minus 1 share) and OJSC *Sovkomflot* (25% minus 1 share). In the case of OJSC *Sovkomflot*, this was the third agent that replaced the previously appointed ones - Morgan Stanley Bank LLC (in 2011) and Deutsche Bank (in 2012).

As far as budget revenues from privatization are concerned (less the value of shares in biggest companies - leaders in their industries), these roughly correspond to the estimated amount of revenues stipulated in the first 3-year privatization program for 2011–2013. Over the period 2017–2019, these are expected to amount to RUB 5.6bn per annum (RUB 16.8bn in total) vs. RUB 6bn in 2011, and RUB 5bn each in 2012 and 2013 (RUB 16bn in total). In the previous privatization program for 2014–2016, the forecasted revenue was RUB 3bn per annum (RUB 9bn in total). As for the expected revenues from the privatization of shares in biggest companies with high investment attractiveness in the event of a special government decision being issued, there are no quantitative indices - just as there were none in the previous privatization program for 2014–2016 (in the privatization program for 2011–2013, the estimated figure was RUB 1 trillion).

The new privatization program, similarly to the previous one, mentions the possibility of the RF President and the RF Government making a decision concerning privatization in the form of reduction of the state stake in the charter capital of a JSC by way of issuing additional shares and using the proceeds to increase the size of corporate capital, with due regard for their long-term development prospects and investments needed for the implementation of their development strategies, as well as their capital adequacy ratio (applicable to banks). With regard to the latter, it is also stipulated that the possible reduction of the state stake in VTB Bank below 50% + 1 share (of the total number of ordinary shares) will be effectuated in coordination with the reduction of state participation in *Sberbank of Russia*. Meanwhile, the Bank of Russia's head voiced her opinion that clients' confidence in a bank depends on the fact of state participation in their capital, and the sale of state stakes in credit institutions is fraught with risks for the banking system due to the possible loss of client trust.<sup>1</sup>

The second section of the new privatization program lists the assets earmarked for privatization in an ordinary procedure (298 federal state unitary enterprises (FSUEs), 477 JSCs, 10 LLCs, and 1,041 'other' property entities held by the RF treasury), similarly to what has been happening in that sphere in recent years. Compared with the initial versions of the previous programs, the number of units earmarked for privatization is somewhere in-between with regard to the number of unitary enterprises (114 units in the forecast plan for 2011–2013, and 514 units in the forecast plan for 2014–2016) and that of JSCs (854 units, including 35 CJSCs and 10 LLCs, in the forecast plan for 2011–2013, and 440 units, including 4 CJSCs, in the forecast plan for 2014–2016), but is much higher with regard to 'other' property entities (73 units in the forecast plan for 2011–2013, and 94 units in the forecast plan for 2014–2016).

It is also stated that some privatized assets are to be transferred to various integrated structures, including the reorganization of a group of unitary enterprises into JSCs, with a subsequent transfer of 100% shares in state corporations *Roscosmos*, *Rosatom*, *Rostec*, and the transfer, as a contribution to the charter capital of *Russian Hippodromes* JSC and *GLONASS SCC*, of several property entities held by the RF treasury. As for the possibility of privatizing other property entities, certain restrictions are imposed on privatization after the transfer of property entities to the RF treasury (including cultural heritage properties), on the timelines for privatization procedures to be coordinated with a federal body of executive authority

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<sup>1</sup> <https://news.rambler.ru/business/35718619-nabiullina-rasskazala-o-perspektivah-privatizatsii-bankov/>, December 28, 2016.

responsible for the coordination and regulation of such activities (for some JSCs), and on the decision-making concerning the terms for privatization after the restrictions are lifted in an established procedure (for the group of unitary enterprises). The instruction issued by the RF Ministry of Communications and Mass Media after considering the draft of the new privatization program prepared by the government is also in this line - it intends to continue the elaboration of the draft law on the specificities of the reorganization procedure to be applied to FSUE *Russian Post*, although it undoubtedly belongs to the category of biggest assets.

In the comments released by the RF Ministry of Economic Development in connection with the consideration, in early February 2017 by the RF Government, of the draft of the new 3-year privatization program it is noted that at present - in contrast to the situation in 2016 - there is no longer an urgent need to generate budget revenue, and so it is not necessary to speed up events - instead, due consideration should be given to the actual preparedness of companies for privatization, as well as to the general developments in the economy. Besides, according to the RF Ministry of Economic Development, privatization must always be attempted with a view towards improving corporate governance quality or boosting competition in certain market segments<sup>1</sup>.

Meanwhile, Law of Federal Budget for 2017–2019 of December 19, 2016, No 415-FZ, similarly to last year's budget law, offers no specific information on the amount of revenues to be generated by privatization neither in the body text, not in the annexes thereto.

At the same time, in the explanatory note attached to the draft law submitted by the government the revenues from privatization of assets in federal ownership were listed alongside government borrowings as a separate source of federal budget deficit financing. Similarly to the draft budget law for the past year 2016 and at variance with the similar draft documents submitted in the previous years, some of the supplementary materials attached to the draft law did provide data pertaining to the forecast plan (program) of federal property privatization, with a substantiated forecast of federal budget revenue to be generated by privatization; this information can also be found in the explanatory note and the calculated by-function targets for each source of federal budget deficit financing.

The amount of federal budget revenue to be generated by federal property privatization is forecasted to be RUB 138.2bn in 2017, RUB 13.6bn in 2018, and RUB 13.9bn in 2019. As a source of federal budget deficit financing, these are going to play a purely subordinate role: in 2017, the expected privatization-generated revenues will amount to 13.6% of the planned government borrowing, and in 2018–2019 – to 1.4%, that is, smaller by one order of magnitude.

The planned structure of privatization-generated revenues in the forecast for 2017 incorporates the proceeds of the deals of alienation of the federal stakes in VTB Bank and OJSC *Sovkomflot*, with regard to which the relevant decisions were issued by the RF Government in summer 2016, as well as proceeds of federal property sales less the value of shares in biggest companies (RUB 18.7bn). While the expected amount of revenue to be generated by the sale of shares in VTB Bank (10.9% - 1 share, RUB 95.5bn) is practically the same as the amount of proceeds of the first sale of a stake of a comparable size completed in 2011, the estimated figure for the stake in OJSC *Sovkomflot* (25% - 1 share, RUB 24bn) is for some reason double the amount that was planned as a revenue target for 2016 (RUB 12bn).

The budget projections for 2018–2019 include only the latter as a revenue source (less the value of shares in biggest companies). This forecast of privatization-generated revenues appears to be

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<sup>1</sup> www.economy.gov.ru, February 2, 2017.

too optimistic. The amount of planned privatization-generated revenues in the budget for 2017–2019 (less the proceeds of biggest deals) (RUB 46.2bn) almost doubles the corresponding target set in the previous privatization programs for 2011–2013 (RUB 25.7bn) and for 2014–2016 (RUB 24.8bn), while the annual privatization-generated revenue targets (RUB 18.7bn in 2017, RUB 13.6bn in 2018, and RUB 13.9bn in 2019) are 2–3 times higher than the target set in the new privatization program for 2017–2019 (RUB 5.6bn per annum).

It should also be noted that the rules for the development of a forecast plan (program) of federal property privatization approved by Decree of the RF Government of 26 December 2005, No 806 do not envisage the valuation of federal property entities listed in the draft of a privatization program in the phase of its elaboration. In this connection, no calculations for each property entity to be privatized in 2017–2019 were presented by *Rosimushchestvo*.

In 2016, the activities aimed at improving and upgrading privatization legislation were continued. In June and July 2016, four federal laws were adopted, whereby the current law on privatization (as of 2001) was further amended.

Firstly, the possibility to delegate the powers of selling federal assets to legal entities acting as agents (Article 6, introduced as part of amendments adopted in 2010) was augmented by another norm whereby it was established that the agent's commission should not be included in the selling price, and should instead be paid by the winner in an auction or in a sale by public offer in addition to the selling price of the federal property entity being privatized. Thus, the information concerning the amount of and the procedure for paying the agent's commission to the legal entity acting as a seller of federal property, and (or) to which, by decision of the RF Government, the powers to organize a sale of a federal asset to be privatized on behalf of the Russian Federation have been delegated, has been added to the list of information to be released as part of the property sale announcement.

Secondly, the criteria for applying the procedure of reorganization (introduced in 2011) of unitary enterprises into limited liability companies (LLC) have been altered (Article 13).

Under a general rule, if the size of charter capital of a joint-stock company to be created as a result of privatization is below the charter capital floor established for a JSC by RF legislation, the unitary enterprise is to be reorganized into a LLC; if its is above the said threshold, the unitary enterprise is reorganized into a JSC. However, if one of the parameters of a unitary enterprise's activity does not exceed the margin established for small businesses by Federal Law of July 24 2007, No 209-FZ 'On Developing Small and Medium Scale Entrepreneurship in the Russian Federation', the property complex held by that unitary enterprise may also be privatized by way of reorganizing it into a LLC.

In the wording of the law that had been in effect until mid-2016, the said parameters for a unitary enterprise were as follows (1) average number of employees, (2) proceeds of sales of goods (or work, or services) less value added tax, summed up for the three calendar years preceding the privatization procedure, (3) the residual value of its fixed assets and intangible assets as of the last reporting date. The last parameter was abolished by the latest amendment, the second was reworded as 'revenues generated by entrepreneurial activity over the three calendar years preceding the privatization procedure, to be determined in the procedure established by RF legislation on taxes and levies.'<sup>1</sup>

Thirdly, alterations were introduced with regard to the information backing of the privatization process (Article 15).

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<sup>1</sup> The description of the first parameter was also changed to *average staffing number*.



The Russian Federation's website designated for posting information concerning the state and municipal property entities put up for sale has acquired an official status. This means that [torgi.gov.ru](http://torgi.gov.ru) is going to be the only official federal website for online bidding, while all the other related websites will serve as supplementary sources of information on asset privatization. In addition, in the text of the law, the term 'websites' has been replaced by 'official website'; the information posted there, among other things, also includes notifications of forthcoming tenders in the framework of transfer of shares in JSCs operated under a trust management agreement (Article 26).

With regard to sale by public offer (Article 23), there has been an important amendment whereby it is established that the announcement concerning property sales by this method should be published in the procedure stipulated in Article 15 no later than three months since the recognition of an auction to have been cancelled.

Fourthly, the legal norms determining the specific features of the privatization procedure as applied to different types of assets have been further elaborated. After the law has been augmented by special articles concerning property entities belonging to utilities infrastructure (Article 30.1, 2013) and operated under concession agreements (Article 30.2, 2014), a special article regulating the privatization procedure for river ports (Article 30.3) was included therein.

Similarly to Article 30.1, it stipulates the possibility to privatize hydrotechnical structures (including wharfs), ship loading facilities and other federal property entities situated at river ports, with the exception of properties that may not be privatized, on condition that these should be encumbered in satisfaction of the secured obligation to be used for servicing passengers and vessels, loading and unloading, receipt, storage and delivery of cargoes, and interaction with other transport means. The termination of that encumbrance and an alteration of the conditions thereto is allowed in the event and in the procedure established by the RF Government, by decision of the federal body of executive authority empowered to perform functions pertaining to the provision of government services and public property management in the inland water transport sector.

However, in contrast to the property privatization procedures applied to property entities in the sectors of electrical grid networks, heating energy sources, heating networks, centralized hot water supply systems, by analogy with Article 30.2, for property entities situated at river ports the preferential purchase right is established, which may be exercised by an individual or legal entity on condition that as of the moment of filing the application concerning their intention to conclude a contract of purchase and sale (1) the relevant property entity situated at a river port as been held by that individual or legal entity by right of lease or by right of uncompensated *use* for two or more years, (2) the individual or legal entity has no lease payments, compensatory payments, penalties or fines in arrears pertaining to their lease or use of property entities situated at a river port, (3) the individual or legal entity has obtained a statement in confirmation of *inalienability* of the port property entities and of the provision of technologies necessary for rendering the river port services as envisaged by legislation on inland water transport of the Russian Federation.

In the event of a property entity situated at a river port being included in a privatization program, the individual or legal entity with a preferential right of purchase files an application with the body empowered to perform the privatization functions concerning their intention to conclude a contract of purchase and sale of that property entity.

On receiving the application, the body empowered to privatize the property entities situated at a river port orders a property valuation report (at market value) within two months since the

date of receiving the application, issues a resolution concerning the privatization terms for the relevant property entity within 2 weeks from the date of receiving the property valuation report, and dispatches to the individual or legal entity with a preferential right of purchase of the property entity situated at a river port a draft of the purchase and sale contract and a copy of the resolution concerning the privatization terms for the relevant property entity within 10 days from the date of making the said decision.

If the individual or legal entity with a preferential right of purchase of a property entity situated at a river port agrees to exercise that right, the contract of purchase and sale must be concluded within 30 calendar days from the date of receiving the proposal that such a contract should be concluded. If the individual or legal entity refuse to exercise their rights, or failure to sign the contract of purchase and sale within the said period, the property entity situated at a river port is privatized in the framework of a tender.

In the event of a significant violation, on the part of the individual or legal entity with whom a contract of purchase and sale of a property entity situated at a river port has been concluded, of the privatization terms stipulated in the resolution, the body empowered to privatize the property entities situated at a river port may file a petition with a court of justice requesting the withdrawal, by way of buying out, of the property entity, its price to be determined on the basis of valuation done in compliance with RF legislation on valuation activity. If the right of ownership is transferred to another individual or legal entity, the latter is not relieved of the obligations with regard to the relevant property entity.

The definition of one of the property categories to which the privatization law is not applicable (land plots and other immovable property entities used for promoting residential construction by a federal fund (*Fund for Promoting Housing Construction*) has been altered; instead, it is defined as the Single Development Institute in the Housing Sphere, performing the functions of agent of the Russian Federation'.<sup>1</sup>

The numerous amendments to the privatization law that have been made in recent years have necessitated the adjustment of normative-legal acts regulating the privatization process, by Decree of the RF Government of May 16, 2016, No 423. It addressed the Rules for preparing and issuing resolutions concerning the terms of federal property privatization (adopted in 2002), the Provision on sale of state and municipal property at an auction, specialized auction, by public offer, and sale without announcing a price (adopted in 2002), and the Rules for the development of a forecast plan (program) of federal property privatization (issued in 2005).

### 6.1.3. The presence of the State in the economy and the issues of management of economic subjects operating in the public sector

In 2016, certain alterations were also introduced in the list of strategic enterprises and joint-stock companies.

As of early December 2016, this list was augmented by only one JSC (*GOZNAK*). Over the same period, 5 FSUEs and 5 JSCs were struck off the list of strategic organizations, including JSC *Bashneft*; the latter, after the bulk of its capital had been transferred back to Russian Federation ownership, it stayed there for a period less than a year. These changes have largely been produced by the creation of vertically integrated structures.

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<sup>1</sup> There is another very recent amendment, introduced in 2017 to the government program *Federal Property Management* (adopted in 2014), whereby the term *Federal Fund for Promoting Housing Construction* was replaced by *Agency for Housing Mortgage Lending (AHML)*, which has become the single development institution operating in the housing sector.

By the RF President's Executive Order of May 12, 2016, No 221, the new scheme of reorganization in the rocket and space industry was outlined. It envisages the transformation into JSCs of 16 FSUEs, including one treasury enterprise, with the subsequent transfer of shares to state corporation *Roscosmos* as public property contributions, and the transfer of state stakes in 46 JSCs of various size (including 9 100% stakes, 6 controlling stakes, 7 blocking stakes, 15 minority stakes, and 9 one-share stakes). Most of these stakes are earmarked for transfer to the charter capital of those 8 integrated structures that are to be transferred to *Roscosmos*. Out of these assets, 3 FSUEs and 3 JSCs are to be struck off the list of strategic organizations.

*Rostec* Corporation is to receive federal stakes in 11 OJSCs, including full ownership (100% stake) of Production Corporation *UralVagonZavod*, which is to be struck off the list of strategic organizations, and minority stakes in another 10 JSCs operating in related industries. Besides, one FSUE, also to be struck off the list of strategic organizations, will be reorganized into a JSC, with its subsequent transfer in full to *Rostec* as a property contribution, to be followed by the transfer of a controlling stake in another JSC (which has never been on the list of strategic organizations).

Special note should be made of the changes in the list of strategic organizations that resulted from the lowered state corporate control threshold in two public JSCs (*Alrosa* and *VTB Bank*). While this alteration was not a decisive one for the former (the reduction from 37% to 33% of charter capital), the latter felt it more strongly. The state corporate control threshold in *VTB Bank*'s charter capital was change twice over the course of 2016: in February (from 50% + 1 share to 45%) and in May (from 45% to 42.83%). *Rosimushchestvo*, in its comments released in connection with the February 2016 reduction of the state stake in *VTB Bank*'s charter capital (which was also reflected in the list of strategic organizations), noted the necessity to further reduce it to its current size after the acquisition, by the Deposit Insurance Agency (DIC), of a large package of preference shares in *VTB Bank*, while the State retained its corporate control by holding voting shares<sup>1</sup>. According to the Year-end 2015 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'), as of summer 2016, the State held 60.93% of voting shares, while its stake in capital amounted to 12.13%.<sup>2</sup>

While moving on to the issues of managing joint-stock companies with state participation, we may note to the strictest executive discipline visible in the organization of annual general shareholder meetings in the 2016 corporate year, its index being 90.75%, including 94.34% among 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), 91.97% among the JSCs off the special list (where the RF is the sole shareholder), and 87.85% among those JSC that are not included in the special list and with state stakes amounting to more than 2% but less than 100% of their charter capital.

In accordance with the decisions of the RF Government issued with regard to general shareholder meeting, in the course of the corporate year 2016, a total of 404 candidates to the boards of directors (supervisory boards) of JSCs entered in the Special List were approved,<sup>3</sup> including 189 professional attorneys (out of a total of 191 persons recommended by the special

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<sup>1</sup> www.rosim.ru, February 8, 2016.

<sup>2</sup> Year-end 2015 Report on the Management of Federal Stakes in OJSCs and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share'), data for summer 2016.

<sup>3</sup> Less OJSC *Roskartografia* (Russian Federal Service of Geodesy and Cartography), OJSC *Rosneftegaz* (the RF Government's decision was delayed), and PJSC *State Transport Leasing Company* (STLC, the sole shareholder is the RF Ministry of Transport).

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), 79 independent directors (out of a total of 86 recommended persons), and 136 civil servants (instead of 130 as recommended by the Commission).<sup>1</sup>

Over recent years, the structure of state participation in the managerial bodies of JSCs entered in the special list has undergone the following changes (*Table 8*).

Table 8

**The movement and structure of State representatives in the managerial and control bodies of JSCs entered on the Special List, in 2009–2016**

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	%	
2009	36	342	100.0	163	47.7	120	35.1	59	17.2	...
2010	49/ 59*	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/ 122***	28.1	228/ 245***	50.4	97/ 102***	21.5	27
2014	51	402	100.0	106/ 104***	26.4	199/ 197***	49.5	97/ 90***	24.1	45
2015**	50	390	100.0	118	30.3	178	45.6	94	24.1	54
2016**	50	404	100.0	136	33.7	189	46.8	79	19.5	65

\* data are also available on the election of professional directors to the managerial bodies of 59 JSCs;

\*\* including OJSC Novorossiysk Commercial Sea Port, where only civil servants were elected to the board of directors and the audit commission;

\*\*\* other data are also available concerning the by-category distribution of state representatives (presented in the denominator), which probably are preliminary estimates, although the number of professional directors (professional attorneys and independent directors) for 2014 released by *Rosimushchestvo* (287) corresponds to the total number for all the groups (presented in the denominator).

Source: Year-end Reports 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') for 2011–2015; own calculations.

Over the period 2015–2016, the share of civil servants increased. After the record low of 2014 (26.4%), their percentage rose to more than 1/3. Incidentally, while in 2015 this happened due to the shrinking share of professional attorneys (to 45.6%), in 2016 it was the share of independent directors that shrank. The latter turned out to be a record low of the entire 7-year period, plummeting to almost the same level as in 2010 (less than 20%). Over the 5-year period 2012–2016, the group of JSCs included in the special list demonstrated stable growth in the number of civil servants per company - from 2.47 to 2.72, and that of professional directors – from 5.14 to 5.36.<sup>2</sup>

As far as the structure of audit commissions is concerned, while civil servants still prevailed in 2016, their number still somewhat shrank to approximately 2/3 from 70% a year earlier (or to 128 vs. 65 independent experts). However, the total number of the latter over the last 4 years

<sup>1</sup> The final decisions concerning the appointment of candidates to the managerial and control bodies of JSCs entered on the Special List are approved by the RF Government.

<sup>2</sup> As can be derived from the body text of *Rosimushchestvo*'s Report, while according to the graphs, it was 5.28 per company.

increased more than fourfold, and their number per company increased from 0.26 in 2012 to 1.32 in 2016.

As for the structure of the managerial bodies of companies not included in the special list (*Table 9*), it should be said that in 479 JSCs, where the State's ownership of a controlling or blocking stake ensured that state representatives took up a total of 2,636 positions in the boards of directors (or supervisory boards) of JSCs,<sup>1</sup> more than half of them were professional directors (1,535, or 58.2%), while the share of civil servants (1,101) was 41.8%. In 38 JSCs 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 56 positions). However, even despite the effects of that factor, the total number of civil servants participating in the boards of directors (or supervisory boards) of the JSCs off the special list dropped relative to 2015, when their number had been 1,571.

As follows from data presented in *Table 9*, over the period 2015–2016, there were some notable changes in the structure of professional directors. While their number shrank by approximately 27%, a much deeper plunge (nearly fourfold) was demonstrated by the number of independent directors which, similarly to their relative share in the total number of state representatives (beside civil servants), hit its record low since 2009–2010 (189, or 12.3%). At the same time, specifically in 2016, alongside the increasing number of professional attorneys (nearing its record highs of 2012 and 2014), the number of independent directors shrank more than twice.

The number of independent experts sitting on audit commissions in 2016 somewhat increased relative to 2015, while still being far below its 2014 level. The per company number of professional directors in boards of directors (or supervisory boards) rose from 3.15 to 3.20, while that of independent experts in audit commissions increased from 0.63 to 0.73 (that is, to its 2014 level).

*Table 9*

**The movement and structure of State representatives in the managerial and control bodies of JSCs off the Special List, in 2009–2016**

Year	JSCs, 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	431	100.0	310	71.9	121	28.1	...
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	1,860/1,869*	100.0	1,350	72.6	510/519*	27.4	23**
2013	637/ 245***	1715	100.0	1,092	63.7	623	36.3	335
2014	683/ 159***	2094	100.0	1,382	66.0	712	34.0	498
2015	527/ 151***	1660	100.0	1,267	76.3	393	23.7	330

<sup>1</sup> Less (1) those JSCs where the State does not hold a blocking stake (38 units) and (2) those JSCs where the State holds a controlling or blocking stake, but the decisions concerning the appointment of professional directors and independent experts have not been passed for various objective reasons (123 units).

## RUSSIAN ECONOMY IN 2016

### trends and outlooks

2016	479/ 123***	1535	100.0	1,346	87.7	189	12.3	353
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\* data are also available on the election of 1,869 professional directors, including 519 independent directors;

\*\* data are also available on the election of 21 of private individuals as representatives in audit commissions;

\*\*\* the denominator is the number of those JSCs where the State holds a controlling or blocking stake, but the decisions concerning the appointment of professional directors and independent experts have not been passed for various objective reasons.

Source: Year-end Reports on the Management of Federal Stakes in OJSCs and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share') for 2011–2015; own calculations.

Among the alterations in the normative legal documents regulating the of JSCs with state participation introduced in 2016, we may note the amendments to the Provision 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'), approved by Decree of the RF Government No 738, dated 3 December 2004. The Provision has been augmented by the norms whereby state representatives are required, when faced with circumstances preventing them from exercising their powers, and also when they quit their civil service positions, to notify the relevant federal body of authority thereof within 5 work days. The latter, in its turn, must submit to *Rosimushchestvo* its proposal concerning the termination of powers granted to that individual, or the conclusion with him or her of a contractual agreement as with a professional attorney. Other regulatory norms include those concerning the interaction between state representatives in a JSC with a 'golden share' and bodies of authority when preparing for a meeting of its board of directors, general shareholder meeting, the issuance of voting directives and the subsequent notification of the body of authority thereof.

The active elaboration of the model documents designed to standardize the managerial procedures applied by companies with state participation. In 2016, methodological recommendations (including guidelines and reference materials) addressing a broad range of issues are introduced, including the organization and conduct of mandatory audits of financial (accounting) report, risk management and internal control measures designed to prevent and eliminate corruption in JSCs with state participation, estimations for reducing costs in JSCs where the State holds a stake in excess of 50%, and the elaboration and adjustment of innovative development programs for JSCs with state participation, state corporations and FSUEs. A separate mention should be made of the new Methodological Recommendations for the identification and sale of assets unrelated to the core types of activity of a company, approved by Directive of the Government of the Russian Federation of July 7, 2016, No ISH-P13-4065. The previously applied Methodology of identifying assets unrelated to core types of activity, approved by *Rosimushchestvo* in 2014, was deemed to be null and void.

With regard to practical the implementation, by companies with state participation, of their internal normative documents, we may say as follows.

By early August 2016, out of 53 companies on the special list, the boards of directors (or supervisory boards) of 46 JSCs approved their long-term development programs (LDP) (the draft LDPs of 2 JSCs were being considered by the RF Government, and the draft LDPs of another 4 JSCs were in the phase of elaboration and coordination); 43 JSCs approved their systems of key performance indices (KPI) (in another 7 JSCs, their KPI systems were undergoing various phases of interdepartmental coordination)<sup>1</sup>.

<sup>1</sup> PJSC *State Transport Leasing Company (STLC)*, the sole shareholder is the RF Ministry of Transport), OJSC *Novorossiysk Commercial Sea Port*, and OJSC *Sheremetyevo International Airport* (with state stakes in their capital amounting to less than 50%) accomplished these tasks, as did *STLC* with regard to approval of its LDP.

Out of 46 JSCs whose LDPs had been approved, 38 submitted the materials and results of the audits of their LDPs for 2015 (according to available data released by *Rosimushchestvo*); and the corresponding KPI data are available for 39 companies.

This aspect of corporate activity appears to be more problematic for the large group of companies off the special list, where state stakes amount to more than 50% of charter capital, and the sole shareholder is *Rosimushchestvo* (374 units). As of the said date, only 188 of them had approved their LDPs (in another 58 JSCs, the draft programs were still being elaborated), and 204 companies approved their KPI systems (while in another 31 JSCs these were still being elaborated).

In addition to developing the medium-term planning systems (in the form of LDP and KPI), serious attention was focused on the implementation of measures designed to boost labor productivity.

Out of 50 JSCs on the special list, 44 companies developed their sets of measures aimed at improving labor productivity; 42 companies included this parameter and related measures in their LDPs; 45 companies included it in their KPIs; 36 companies introduced relevant amendments in the contractual agreements with their CEOs; and 40 companies filled in the annual federal statistical monitoring form 'Information on labor productivity for enterprises operating in the sector of non-financial corporations with state participation'.<sup>1</sup>

For the more numerous group of 374 JSCs off the special list, where state stakes amount to more than 50% of charter capital, these measures were introduced on a lower scale. Only 135 among these companies succeeded in developing their sets of measures aimed at improving labor productivity; 149 companies included this parameter and related measures in their LDPs; 142 companies included it in their KPIs; 99 companies introduced relevant amendments in the contractual agreements with their CEOs; and 154 companies filled in the said annual federal statistical monitoring form.

More than 3/4 of the companies on the special list developed and approved their internal normative documents: the regulations for improving their investment activity and performance indices, and reducing their costs, the provisions on their internal audits, their quality management systems, their risk management systems, and their procedures for developing and implementing their innovative development programs. The latter appear to be relatively more problematic issues, as they were accomplished by only 40 companies.

In 2016, substantial efforts were focused on the implementation of the norms stipulated in the new Corporate Governance Code (CGC), introduced in 2014. In order to ensure maximum openness in following the norms and principles of the CGC, the Central Bank of the Russian Federation issued its recommendations, to be complied with by public JSCs when drawing up their reports concerning the implementation of the Code's principles and recommendations. *Rosimushchestvo* in 2016, by way of exercising its shareholder right, analyzed the annual reports for the 2015 corporate year, submitted by 12 biggest state-owned companies and approved by their annual general shareholder meetings, in order to review their compliance with the norms and principles stipulated in the CGC.

The results of that analysis, as well as other information submitted by state-owned companies at *Rosimushchestvo*'s request, demonstrate that all the 12 JSCs entered in their annual reports the data on the implementation of the norms and principles stipulated in the

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<sup>1</sup> PJSC *State Transport Leasing Company (STLC)*, the sole shareholder is the RF Ministry of Transport), OJSC *Novorossiysk Commercial Sea Port*, and OJSC *Sheremetyevo International Airport* (with state stakes in their capital amounting to less than 50%) succeeded in implementing these measures.

CGC, and out of these, 9 companies submitted their reports on the implementation of these norms and principles in the format recommended by the RF the Central Bank.

As shown by the analysis of the reports submitted by JSCs, the overall roadmap implementation index for the provisions stipulated in the CGC as of late summer 2016 was 77 %.

The highest rate of implementation of the Code's provisions has been noted with regard to the following 5 sections:

- shareholder rights and equal opportunities for exercising these rights (86%);
- risk management and internal control systems (85%);
- system of reimbursement of members of board of directors, executive bodies, and other key CEOs (83%);
- disclosure of information of a JCS and its information policy (77%);
- the board of directors of a JCS (76%).

The implementation indices for another two sections of the CGC (corporate secretary and significant corporate acts) are approximately 60% each.

Among the 12 companies, the highest indices of implementing the Code's key sections were reported by PJSC *Sovkomflot* (99%), PJSC *Alrosa* and VTB Bank (90% each), PJSC *Aeroflot* (81%).

The tense budgetary situation prompted the RF Government to adopt a special document on its dividend policy in 2016.<sup>1</sup>

By Directive No 705-r of April 18, 2016, when calculating the dividends on the basis of the year-end results of 2015, federal bodies of authority, and first of all *Rosimushchestvo*, were to comply with the following provisions:

- the amount earmarked for the payment of dividends could not be less than the highest of the following two values: 50% of a joint-stock company's net profits (less the incomes and expenditures produced by revaluation of marketable securities of their affiliated companies and the profits tax laid on these), as estimated on the basis of its accounting (or financial) reports, or 50% of a joint-stock company's net profits as estimated on the basis of its consolidated financial report;
- the amount earmarked for the payment of dividends by joint-stock companies belonging to the category of natural monopolies could not be less than the highest of the following two values: 50% of a joint-stock company's net profits entered into records by the Federal Antimonopoly Service in accordance with the currently established tariffs, or the value determined in accordance with the provisions described earlier;
- the amount of net profits that has not been earmarked to the funding of investment projects and other purposes, should be paid as dividends;
- investment projects should comply with the rate-of-return norm established for a given joint-stock company.

As of August 1, 2016, the total volume of federal budget revenues administered by *Rosimushchestvo*, in the form of dividends on shares held by the State, with due regard for the resolutions passed by the annual general shareholder meetings in 2015, amounted to more than RUB 188.82bn, which much less than what had been paid a year earlier (RUB 237.73bn), and roughly corresponds to the year-end index for 2012 (RUB 184bn).

In full compliance with the forecast of dividend receipts in the federal budget, the year-end results of 2015 showed that 99% of the total amount of dividends charged on the shares held

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<sup>1</sup> It should be reminded that previously, these issues were regulated by Directive of the RF Government No 774-r dated May 29, 2006 (as amended as of late 2012).



by the RF was paid by JSC on the special list (vs. 59% a year earlier). The group of biggest payers of dividends to the federal budget (in amounts in excess of Rb 1bn) consists of PJSC *Gazprom*, OJSC *Rosneftegaz*, PJSC *Bashneft*, OJSC *JSC Transneft* PJSC *Rusgidro*, VTB Bank, PJSC *Rostelecom*, PJSC *Sovkomflot*, PJSC *Alrosa*, JSC *Zarubezhneft*, the Agency for Housing Mortgage Lending (AHML), and *Federal Grid Company of Unified Energy System*.

18 JSCs on the special list earmarked for the payment of dividends no less than 50% of their year-end net profit of 2015. For 15 JSCs on the special list, the RF Government issued decisions that they were not to pay dividends on the basis of their year-end reports for 2015, including 11 JSCs that were allowed not to pay dividends due to their losses. As seen by the year-end results of 2015, for 5 JSCs on the special list (*Bashneft*, *Alrosa*, the AHML, *United Grain Company* (UGC), *Rosneft*) 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)<sup>1</sup>.

#### 6.1.4. The budgetary effect of government property policy

In 2016, in contrast to the situation in 2015, the movement of budget revenues that had to do, in one or other way, with public property was positive. The formal indicators point to growth of revenues generated both by the use of public property (renewable sources) and by privatization and sale of property (non-renewable sources). For the last time previously, this movement pattern could be observed in 2011–2012. However, in the final analysis, the outcome may be estimated somewhat differently, depending on how the budget revenues generated by the sale of a stake in *Rosneft* will be treated.

*Tables 10 and 11* show data, taken from the laws on federal budget execution for 2000–2014 (with the exception of data for 2015–2016), on the revenues generated by the use and sale of public property belonging only to some specified categories of tangible property entities<sup>2</sup>.

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<sup>1</sup> Year-end 2015 Report on the Management of Federal Stakes in OJSCs and the Use of the Russian Federation's Special Right to Participate in an OJSC's Management ('Golden Share').

<sup>2</sup> Here, we do not consider 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 the losses incurred by the agricultural production sector as a result of 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, and from 2009 onwards – the Reserve Fund and the National Welfare Fund)); revenues from investment of monies accumulated in the course of trading RF stocks in the auction market); interest on budget-funded domestic loans, covered by 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 from paid services rendered to the population or monies received by way of compensation of government expenditures; transfers of the RF Central Bank's profits; certain categories of payments from state and municipal enterprises and organizations (patent duties and registration fees for official registration of software, databases, integral microcircuit topologies; and other revenues which until 2004 were part of mandatory payments of state organizations (except revenues generated by the operations of Joint Venture *Vietsovpetro* (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

Table 10

**Federal budget revenues generated by the use of public property  
(renewable sources) in 2000–2016, RUB m**

Year	Total	Dividends on shares (2000–2016) and revenues generated by other forms of participation in capital (2005–2016)	Payment for lease of land in state ownership	Revenues generated by lease of property in state ownership	Revenues for transfer of part of net profits of FSUEs after taxes and other mandatory payments	Revenues generated by Joint Venture <i>Vietsovetro</i>
2000	23,244.5	5,676.5	-	5,880.7	-	11,687.3 <sup>a</sup>
2001	29,241.9	6,478.0	3,916.7 <sup>b</sup>	5,015.7 <sup>c</sup>	209.6 <sup>d</sup>	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 <sup>e</sup>		2,387.6	16,200.9
2004	50,249.9	17,228.2	908.1 <sup>f</sup>	12,374.5 <sup>g</sup>	2,539.6	17,199.5
2005	56,103.2	19,291.9	1,769.2 <sup>b</sup>	14,521.2 <sup>i</sup>	2,445.9	18,075.0
2006	69,173.4	25,181.8	3,508.0 <sup>b</sup>	16,809.9 <sup>i</sup>	2,556.0	21,117.7
2007	80,331.85	43,542.7	4,841.4 <sup>b</sup>	18,195.2 <sup>i</sup>	3,231.7	10,520.85
2008	76,266.7	53,155.9	6,042.8 <sup>b</sup>	14,587.7 <sup>i</sup>	2,480.3	-
2009	31,849.6	10,114.2	6,470.5 <sup>b</sup>	13,507.6 <sup>i</sup>	1,757.3	-
2010	69,728.8	45,163.8	7,451.7 <sup>b</sup>	12,349.2 <sup>j</sup>	4,764.1	-
2011	104,304.0	79,441.0	8,210.5 <sup>b</sup>	11,241.25 <sup>j</sup>	4,637.85	773.4
2012	228,964.5	212,571.5	7,660.7 <sup>k</sup>	3,730.3 <sup>i</sup>	5,002.0	-
2013	153,826.25	134,832.0	7,739.7 <sup>k</sup>	4,042.7 <sup>l</sup> + 1,015.75 <sup>m</sup>	6,196.1	-
2014	241,170.6	220,204.8	7,838.7 <sup>k</sup>	3,961.6 <sup>l</sup> + 1,348.5 <sup>m</sup>	7,817.0	-
2015	285,371.1	259,772.0	9,032.3 <sup>k</sup>	5,593.8 <sup>l</sup> + 1,687.8 <sup>m</sup>	9,285.2	-
2016	946,721.95/ 254,326.95 <sup>n</sup>	918,968.3/ 226,573.3 <sup>n</sup>	9,412.4 <sup>k</sup>	5,843.25 <sup>l</sup> + 3,026.1 <sup>m</sup>	9,471.9	-

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

<sup>b</sup>—the amount of lease payments (1) for the use of agricultural land and (2) for the use of land plots in the territories of towns and settlements;

<sup>c</sup>—the amount of revenues from the lease of property consolidated to (1) scientific research organizations, (2) educational establishments, (3) healthcare institutions, (4) state museums, state cultural and arts institutions, (5) archival institutions, (6) the RF Ministry of Defense, (7) organizations subordinated to the RF Ministry of Railways, (8) organizations providing research-related services to the academies of sciences with the status of a state entity, and (9) other revenues from the lease of property in state ownership;

<sup>d</sup>—according to data released by the RF Ministry of Property Relations, in the Law on Federal Budget Execution for 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;

<sup>e</sup>—total amount of revenues generated by the lease of property entities in public ownership (without specifying the amount of lease payments for land);

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.

By contrast with the previous years, the law on federal budget execution for 2015 contains no aggregate data listed under each revenue classification code or sub-code, or listed according to the classifications of transactions in the public administration sector on revenue side (these are listed only by their classification code for each revenue administrator). Therefore, we used data from the Report on Federal Budget Execution as of January 1, 2016 (annual data).

<sup>f</sup> – the amount of lease payments (1) for the use of land plots in the territories of towns and settlements (2) for the use of land plots in federal ownership after the delineation of titles to land plots between different tiers of government;

<sup>g</sup> – the amount of revenues from the lease of property consolidated to (1) scientific research organizations, (2) educational establishments, (3) healthcare institutions, (4) state cultural and arts institutions, (5) state archival institutions, (6) institutions of the federal postal service of the RF Ministry of Communications and Informatization, (7) organizations providing research-related services to the academies of sciences with the status of a state entity, and (8) other revenues generated by the lease of property in federal ownership;

<sup>h</sup> – 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));

<sup>i</sup> – 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: (1) scientific research institutions, (2) organizations providing research-related services to the Russian Academy of Sciences and to sectoral academies of sciences, (3) educational establishments, (4) healthcare institutions, (5) federal postal service institutions of the Federal Communications Agency, (6) state cultural and arts institutions, (7) state archival institutions, and (8) other revenues generated by 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<sup>1</sup> (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 which were not listed as a separate revenue item in the previous years<sup>2</sup>);

<sup>j</sup> – 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 federal autonomous institutions and budget-funded institutions): properties transferred for operative management to organizations with the status of a state entity: (1) scientific research institutions, (2) organizations providing research-related services to the Russian Academy of Sciences and to the ‘branch’ academies of sciences, (3) educational establishments, (4) healthcare institutions, (5) state cultural and arts institutions, (6) state archival institutions, (7) properties held by right of operative management by the RF Ministry of Defense its subordinated institutions (2010), (8) properties in federal ownership disposed of by the Executive Office of the RF President (2010), and (9) other 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);

<sup>k</sup> – 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 budget-funded institutions and autonomous institutions), (1) lease payments received for the lease of land plots in federal ownership, situated in public motor road precincts of federal importance (2012–2016), (2) 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 building construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, installation and exploitation of elevated advertising structures (2012 and 2014–2016), and (3) payments received in the framework of agreements on the establishment of servitude with regard to land plots in federal ownership (2015–2016);

<sup>l</sup> – 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 budget-funded institutions

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<sup>1</sup> 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 do not include revenues generated by property held by autonomous institutions.

<sup>2</sup> According to data released by the RF Ministry of Property Relations, the revenues from the use of federal properties situated abroad (less the revenues received by the generated by the Russian partner in Joint Venture *Vietsovpetro*) amounted to RUB 315m in 1999 and RUB 440m in 2000. Thereafter, the major role in organizing the commercial use of federal immovable property situated abroad was assigned to FSUE *Goszagransobstvennost*.

and autonomous institutions): properties transferred for operative management to organizations with the status of a state entity: (1) scientific research institutions, (2) educational establishments, (3) healthcare institutions, (4) state cultural and arts institutions, (5) state archival institutions, (6) other revenues from the lease of property held by right of operative management by federal treasury institutions, (7) federal bodies of state authority, the Bank of Russia, and the managerial bodies of RF government extrabudgetary funds, (8) federal treasury institutions (2015 only) (less revenues from the use of federal properties situated outside of RF territory, which are received abroad)<sup>1</sup>; <sup>m</sup> –the amount of revenues from the lease of RF treasury property (with the exception of land plots); <sup>n</sup> –less the revenues generated by the sale of the stake in *Rosneft* (RUB 692,395bn) (less interim dividend payments).

*Source:* Laws on federal budget execution for the period 2000–2014; Report on Federal Budget Execution as of 1 January 2016 (annual report), [www.roskazna.ru](http://www.roskazna.ru); own calculations.

In 2016, the aggregate revenues generated by renewable sources jumped 3.3 times on the previous year, due in the main to the receipts of dividends, which increased 3.5 times (to RUB 919bn), his evidently being the effect of the sale of shares in *Rosneft*. The scheme of that deal envisaged that the proceeds should be paid to the federal budget in the form of dividends by OJSC *Rosneftegaz*, which acts as a parent company of *Rosneft*. Without that sum (RUB 692.395bn),<sup>2</sup> the amount of dividends to be paid to the budget would be only RUB 226.6bn, which is nearly 13% below the corresponding index for the previous year, but is still somewhat higher than that for 2014 (RUB 220.2bn).

The receipts of part of profits paid by unitary enterprises increased by only 2%, amounting in absolute terms to approximately RUB 9.5bn, thus representing a record high of the entire period since the early 2000s. For two straight years (2015–2016), budget revenues from that source exceeded those generated by lease of land plots; the latter, while having increased somewhat more (by 4.2%), amounted to approximately RUB 9.4bn.<sup>3</sup> Likewise, two years in a row saw an accelerated growth (nearly 22%) of the aggregate revenues generated by lease of federal property (approximately RUB 8.9bn). However, in contrast to the situation in 2015, this figure was produced by the increased (1.8 times) revenues generated by lease of property which is held by the RF treasury (except land plots) (more than RUB 3bn), while the revenues from 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 institutions and autonomous institutions) increased by only 4.5% (to more than RUB 5.8bn).

Similarly to the previous year, dividends held a dominant position in the structure of renewable federal budget revenue sources (more than 97% vs. 91% a year earlier). The other three sources accounted approximately for 1% each. However, the overall picture alters dramatically once we disregard the sale of shares in *Rosneft*. Then, the amount of revenues generated by the use of public property in absolute terms (RUB 254.3bn) would plunge 11%

<sup>1</sup> Data for 2016 are presented in a generalized form, without separate by-branch entries for each group of institution. The generalized classification includes only 2 revenue categories depending on the type of recipient of revenues generated by lease of property (federal government bodies, the Bank of Russia and the managerial bodies of RF government extrabudgetary funds, and federal treasury institutions).

<sup>2</sup> For a correct comparison, specifically the proceeds of sale of shares in *Rosneft* are taken here, without the amount of intermediate dividends (RUB 18.4bn), which are due to be transferred to the budget anyway.

<sup>3</sup> 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 building construction (or reconstruction), capital repairs and exploitation of road service entities, installation and exploitation of utility networks, and installation and exploitation of elevated advertizing structures, which are not specified as a separate item in the budget reports for 2015.

below its 2015 value (RUB 285.4bn). And their structure would be likewise close to that in the previous year: dividends – 89%; profits transferred by FSUEs and lease of land plots – 3.7% each; property lease – 3.5%. The relative shares of the last three revenue sources had somewhat increased relative to 2015.

While proceeding to an analysis of federal budget revenues generated by privatization and sale of state property (*Table 11*), 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 plots<sup>1</sup>) have been treated as a source of funding to cover budget deficit.

*Table 11*

**Federal budget revenues generated by privatization and sale of property  
(non-renewable sources) in 2000–2016, RUB m**

Year	Total	Sale of shares in federal ownership (2000–2014) and other forms of participation in capital (2005–2016) <sup>a</sup>	Sale of land plots	Sale of miscellaneous properties
2000	27,167.8	26,983.5	-	184.3 <sup>b</sup>
2001	10,307.9	9,583.9	119.6 <sup>c</sup>	217.5+386.5+0.4 (ITA) <sup>d</sup>
2002	10,448.9	8,255.9 <sup>e</sup>	1,967.0 <sup>f</sup>	226.0 <sup>g</sup>
2003	94,077.6	89,758.6	3,992.3 <sup>h</sup>	316.2+10.5 <sup>i</sup>
2004	70,548.1	65,726.9	3,259.3 <sup>j</sup>	197.3+1,364.6+0.04 (ITA) <sup>k</sup>
2005	41,254.2	34,987.6	5,285.7 <sup>l</sup>	980.9 <sup>m</sup>
2006	24,726.4	17,567.9	5,874.2 <sup>n</sup>	1,284.3 <sup>o</sup>
2007	25,429.4	19,274.3	959.6 <sup>o</sup>	5,195.5 <sup>p</sup>
2008	12,395.0	6,665.2+29.6	1,202.0 <sup>q</sup>	4,498.2+0.025 (ITA) <sup>r</sup>
2009	4,544.1	1,952.9	1,152.5 <sup>q</sup>	1,438.7 <sup>r</sup>
2010	18,677.6	14,914.4	1,376.2 <sup>q</sup>	2387.0+0.039 (ITA) <sup>r</sup>
2011	136,660.1	126,207.5	2,425.2 <sup>q</sup>	8027.4 <sup>r</sup>
2012	80,978.7	43,862.9	16,443.8 <sup>q</sup>	20,671.7+0.338 (ITA) <sup>r</sup>
2013	55,288.6	41,633.3	1,212.75 <sup>q</sup>	12,442.2+0.310 (ITA) <sup>r</sup>
2014	41,155.35	29,724.0	1,912.6 <sup>q</sup>	9,517.7+1.048 (ITA) <sup>r</sup>
2015	18,604.1	6,304.0	1,634.55 <sup>q</sup>	10,665.5+0.062 (ITA) <sup>r</sup>
2016	416,470.5	406,795.2	2,112.7 <sup>q</sup>	7,562.6+0.012 (ITA) <sup>r</sup>

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

<sup>b</sup> –revenues generated by privatization of entities in public ownership and treated as an internal source of funding to cover federal budget deficit;

<sup>c</sup> –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;

<sup>d</sup> –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 sale of apartments, 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;

<sup>e</sup> – including RUB 6m generated by sale of shares held by RF subjects;

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

<sup>g</sup> –revenues generated by sale of property in public ownership (including RUB 1.5m generated by the sale of properties held by RF subjects), treated as an internal source of funding to cover federal budget deficit;

<sup>h</sup> –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;

<sup>1</sup> Data for the period 2003–2004 include revenues generated by sale of leasing rights.

<sup>i</sup> –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;

<sup>j</sup> –this figure includes the revenues generated by: (1) sale of land plots after delineation of public 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;

<sup>k</sup> –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 (a) sale of apartments, (b) sale of equipment, transport vehicles and other tangible assets, the proceeds being transferred to the federal budget, (c) sale of the products of ships recycling industry, (d) sale of property held by state unitary enterprises and state institutions, as well as sale of military property, (e) 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;

<sup>l</sup> –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 public 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;

<sup>m</sup> –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 (a) sale of apartments, (b) sale of property held by FSUEs, (c) sale of property held by right of operative management by federal institutions, (d) sale of military property, (e) sale of the products of recycled armaments, military technologies and ammunition, (f) sale of other properties in federal ownership, (g) sale of intangible assets; these are treated as federal budget revenues;

<sup>n</sup> –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 (a) sale of apartments, (b) sale of property held by FSUEs, (c) sale of property held by right of operative management by federal institutions, (d) sale of military property, (e) sale of the products of recycled armaments, military equipment and ammunition, (f) sale of other properties in federal ownership; these are treated as federal budget revenues;

<sup>o</sup> –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;

<sup>p</sup> –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 revenues 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 (a) sale of apartments, (b) sale of property held by FSUEs, (c) sale of property held by right of operative management by federal institutions, (d) sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that involve military service, and services that are equated to military service, (e) 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, (f) revenues generated by sale of other properties in federal ownership; these are treated as federal budget revenues;

<sup>q</sup> – 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; prior to 2015, these also include payments for the enlargement of private land plots resulting from their redistribution, as well the redistribution of land plots in federal ownership;

<sup>r</sup> –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 2012–2016, 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 also includes revenues generated by (a) sale of apartments, (b) sale of property held by right of operative management by federal institutions (with the exception of autonomous institutions and budget-funded institutions (data for 2011–2016), less revenues generated by the activities of institutions situated abroad (2015–2016), (c) sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that involve military service, and services that are equated to military service, (d) sale of the products of recycled armaments, military equipment and ammunition, (e) sale of products intended for military use and entered 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 2010–2016), (f) 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), (g) revenues generated by sale of immovable property held by budget-funded and autonomous institutions (2014–2016), (h) 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 1 January 2016 (annual report); www.roskazna.ru, own calculations.

When taken in absolute terms, the amount of property-generated federal budget revenues from non-renewable sources in 2016 increased manifold (more than 22 times).

Even more impressive growth (64.5 times) was demonstrated by the revenues generated by sale of shares (to RUB 406.8bn). This index is more than threefold above the record high previously observed in 2011 (RUB 126.2bn).

The revenues generated by sale of land plots rose 29%, amounting to RUB 2.1bn vs. RUB 1.6bn a year earlier, which is higher than the corresponding indices for 2008–2010 and 2013–2014, but below the year-end index for 2011 - let alone the record high of 2012. Meanwhile, the amount of revenues from sale of miscellaneous properties dropped by the same 29%, hitting their record low in absolute terms (approximately RUB 7.6bn) since 2011.

The revenues generated by sales of shares in 2016 produced the bulk of aggregate revenues from non-renewable sources (97.7%), while a year earlier their share had been less than 34%. As for the share of revenues from sale of miscellaneous properties, these accounted for 1.8% (vs. more than 57% in 2015), and the revenues from sale of land plots – for only 0.5% (vs. 8.8% in 2015).

The aggregate federal budget revenue generated by privatization (or sale) and use of state property in 2016 (*Table 12*) increased 4.5 times on the previous year. Its amount in absolute terms (RUB 1,363.2bn) nearly triples relative to its previous record high of 2012.

*Table 12*

**The structure of property-generated federal budget revenues  
from miscellaneous sources, 2000–2016**

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)	
	RUB m	% of total	RUB m	% of total	RUB m	% 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

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### trends and outlooks

2004	120,798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	105,761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,661.7	100.0	12,395.0	14.0	76,266.7	86.0
2009	36,393.7	100.0	4,544.1	12.5	31,849.6	87.5
2010	88,406.4	100.0	18,677.6	21.1	69,728.8	78.9
2011	240,964.1	100.0	136,660.1	56.7	104,304.0	43.3
2012	309,943.2/ 469,243.2*	100.0	80,978.7/ 240,278.7*	26.1/51.2*	228,964.5	73.9/48.8*
2013	209,114.85	100.0	55,288.6	26.4	153,826.25	73.6
2014	282,325.95	100.0	41,155.35	14.6	241,170.6	85.4
2015	303,975.2		18,604.1	6.1	285,371.1	93.9
2016	1,363,192.45/ 670,797.45**		416,470.5	30.6/62.1**	946,721.95/ 254,326.95**	69.4/ 37.9**

\* including the proceeds received by the RF Central Bank as a result of sale of a stake in Sberbank (RUB 159.3bn), which is probably an overestimation of the actual aggregate share of non-renewable sources, as the budget received not that sum in full, but that sum less the balance sheet value of that particular asset plus the costs incurred in the deal of sale. Consequently, the share of renewable sources is, on the contrary, somewhat underestimated;

\*\* less the revenues generated by the sale of shares in Rosneft (RUB 692,395bn) (less interim dividend payments).

Source: Laws on federal budget execution for the period 2000–2014; Report on Federal Budget Execution as of January 1, 2016 (annual report); Report on Federal Budget Execution as of January 1, 2017 (monthly report), [www.roskazna.ru](http://www.roskazna.ru), own calculations.

In 2016, the ratio of non-renewable to renewable sources in the structure of aggregate revenues generated by privatization (or sale) and use of demonstrated a shift towards the former. Their relative share increased fivefold, to 30.6%. As a result, the share of revenues generated by public property use shrank from approximately 94% to 69.4%. Somewhat similar proportions were observed in 2012 when a stake in *Sberbank* was sold, but then the proceeds were transferred to the federal budget as part of profits received by the RF Central Bank.

If we subtract the revenue generated by the sale of shares in *Rosneft* from the total amount of revenues from renewable sources received in 2016, non-renewable sources will prevail in the structure of aggregate revenues generated by privatization (or sale) and use of public property (62.1%), thus producing a picture resembling that observed in 2004 and 2011. Then the share of revenues from renewable sources will become less than 38%. In absolute terms (RUB 254.3bn), this index will be second only to that for 2015, being far above the corresponding indices for 2012 (RUB 229bn) and 2014 (RUB 241.2bn). The results achieved in 2016 in the sphere of privatization and sale of public property represent a record high, even less the proceeds of sale of shares in *Rosneft*.

\* \* \*

We would like to conclude with a brief summary. The 3-year privatization program for 2014–2016 has been completed. After a year-long break caused by unfavorable macroeconomic conditions, sales of big assets were launched once again, to the total value (over the entire 3-year period) in excess of RUB 1.1 trillion, the bulk of that amount being provided specifically by the deals completed in 2016, the centerpiece being the *Rosneft* deal. It is only thanks to the sale of shares in *Rosneft* that the total value of privatization deals exceeded the corresponding index of the previously implemented privatization program for 2011–2013; in contrast to that index, all the similar deals completed in 2014–2016 produced revenues on which the federal budget was heavily dependent, with the exception of that involving the assets of Moscow airports with the participation of strategic investors from the private business sector.



By the majority of other parameters, the outcome of the privatization program for 2014–2016 was much more modest, even considering the fact that in 2016, the sales of shares and the number of unitary enterprises being reorganized into joint-stock companies in the framework of standard privatization procedures notably increased relative to 2015. An obvious exception is the sale of property entities held by the RF treasury - in 2016, the scale of such deals gone up manifold.

In terms of its content, the new forecast plan of federal property privatization for 2017–2019 is organized similarly to the two previously implemented 3-year privatization programs. When compared to these programs by the number of property entities privatized in an ordinary procedure (unitary enterprises and joint-stock companies), it holds a somewhat intermediate position, radically differing by its greater number of 'other properties' held by the treasury. The budget revenue target (privatization deals other than major deals) is approximately the same as the estimated revenue for the first 3-year privatization program for 2011–2013. The list of biggest companies to be privatized in the framework of individual schemes is much shorter by comparison with that prepared for the program for 2014–2016, and besides, there is no forecasted revenue target.

The data, provided in the new privatization program, concerning the number of unitary enterprises and joint-stock companies with a state stake in their capital as of early 2016, confirm the existence of a multiyear downward trend displayed by the number of economic subjects in federal ownership. A more detailed analysis has revealed some negative trends in the group of joint-stock companies with state stakes, i.e. the shrinking share of companies where the State in the capacity of a shareholder can exercise full corporate control, which is happening due to the increasing percentage of companies with minority state stakes alongside a declining percentage of those where *Rosimushchestvo* is not restricted in its shareholder rights.

In recent years, the managerial structure of JSCs with state participation has once again demonstrated a trend towards reducing the role of independent directors as their CEOs and promoting the representation of civil servants and professional attorneys. One of the distinctive features of 2016 was the active implementation, by biggest joint-stock companies with state stakes in their capital, of the norms stipulated in the new Corporate Governance Code (CGC), and the toughening of their dividend policies.

The estimated structure of federal budget revenue generated by privatization (or sale) and use of public property depends on how the outcome of the *Rosneft* deal is actually to be treated. If we formally follow the principles of the currently applied budget classification, we will see that, just as it was in 2015, revenues from renewable sources prevailed, although the share of revenues generated by privatization and sale of property increased significantly. However, if we disregard the *Rosneft* deal, we can say that the amount of revenues from non-renewable sources was higher - something that had not been the case since 2011–2012.