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The review “Russian economy in 2017. Trends and outlooks” has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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6.1. Federal property and privatization policy¹

6.1.1. Federally owned companies and organizations: quantitative changes

2016 saw first publication of data from a performance measures framework for federal property management that was adopted on January 29, 2015 by Russian Government's executive order No. 72 in lieu of performance measures for a public sector monitoring conducted by Rosstat in the early 2000s in pursuance of the Russian Government's executive order No. 1 dated January 4, 1999 (as further amended on December 30, 2002). The performance measures framework contains data for the number of federal state unitary enterprises (FSUEs) and joint-stock companies (JSCs) with government equity participation that were previously published in privatization programs over a 3-year period (since 2011) and one-year period (prior to 2011). A new Forecast Plan (Program) for Federal Property Privatization and Guidelines for Federal Property Privatization for 2017–2019 adopted early in 2017² contains data dated only as of early 2016 (*Table 1*). As of early 2017, according to the Report of the Federal Agency for State Property Management (hereinafter Rosimushchestvo) on the implementation of privatization program for 2017–2019, the Russian Federation owned 1108 FSUEs and held an interest of 11 and 17 percent in 1416 JSCs and LLCs, respectively, marking a decline from the previous year's number of economic agents with the same legal form of business. However, developments and processes that took place in 2017 only can be described using data from the performance measures framework for federal property management.

As of July 1, 2017, the Russian Federation owned 1247 JSCs and held a full ownership interest in 1058 FSUEs, 53 federal treasury enterprises (FTEs) and 16244 federal government agencies (FGAs). According to annualized data, the number of FSUEs dropped 320 (more than 23 percent), the number of JSCs with government equity participation fell 324 (more than 20 percent), the number of federal government agencies was down 746 (or 4.4 percent). Furthermore, the number of FTEs increased 12.8 percent. In absolute terms (6 units), however, the increase is difficult to compare with the decline in the number of economic agents with other types of ownership related to federal property. The same is true for JSCs in which a golden share was used (which gives its holder the power to participate in corporate governance) whose number dropped nearly 5 percent (or by 4 JSCs). Changes that influenced FTEs and JSCs with a golden share took place mostly in H1 2017. Changes over a shorter timeframe in the number of entities with basic types of ownership were as follows: the number of unitary enterprises declined 15 percent, shareholding companies were down 8 percent, government agencies slid 3.6 percent.

Table 1

¹ This section is written by Georgy Malginov, the Gaidar Institute, RANEPa; Alexander Radygin, the Gaidar Institute, RANEPa.

² See the Gaidar Institute's previous review: Russian Economy in 2016: Trends and Outlooks (Issue 38). M., 2017, pp. 357–360.

Federally owned companies and organizations registered with federal property register and performance measures framework for federal property management, 2010–2017

Date	Number of shareholding companies with federal equity participation		Number of other federal property owners		
	Equity participation / of which JSCs	golden share in absence of equity participation	FSUEs	FTEs	FGAs
As of January 1, 2010	3066/2950 ^b		3517 ^b		
As of January 1, 2013	2356/2337 ^b		1800/1795 ^b	72	20458
As of January 1, 2016	1557/1704 ^b	88/64 ^c	1488/1247 ^b	48	16194
As of April 7, 2016 ^a		1683/1620 ^d	1236	48	16726
As of July 1, 2016	1571	82	1378	47	16990
As of January 1, 2017	1356/ 1416 ^e	81	1245/1108 ^e	48	16846
As of July 1, 2017	1247	78	1058	53	16244

^a golden share is not accounted in the register but mentioned in Rosimushchestvo's documents as part of data on government equity participation;

^b the number of JSCs and FSUEs according to data from privatization programs for 2010–2013, 2014–2016 and 2017–2019 (the latter contains data based on OKVED classification (Russian Classifier of Economic Activities) that refer to companies with an interest owned by the federal government);

^c according to data from the federal property register;

^d the numerator shows total corporate entities including ZAOs (closely-held companies) and OOs (LLCs), the denominator shows equity participation (the difference is supposedly represented by the number of JSCs with a golden share which is not explicitly specified);

^e according to data from The 2017 Report on Execution of the Forecast Plan (Program) for Federal Property Privatization for 2017–2019.

Source: The Forecast Plan (Program) for Federal Property Privatization and Guidelines for Federal Property Privatization for 2011–2013; The Forecast Plan (Program) for Federal Property Privatization and Guidelines for Federal Property Privatization for 2014–2016; www.economy.gov.ru, April 23, 2013; The Rosimushchestvo's Performance Report for 2015 ; The Forecast Plan (Program) for Federal Property Privatization and Guidelines for Federal Property Privatization for 2017–2019; Statistical data on The performance measures framework for federal property management, www.gks.ru, March 20, 2016, September 05, 2016; March 20, 2017, September 05, 2017; The Report on Execution of the Forecast Plan (Program) for Federal Property Privatization 2017–2019 in 2017.

Shareholding companies in which the federal government owns an interest are best characterized by Rosimushchestvo's year-end reports regarding the management of federally owned equity shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies that are published since 2012.

According to data from the Federal State Information and Analytical System "Unified State Property Management System (FSIAS USPMS) as of August 01, 2017, the federal property register contained data on 1298 JSCs with an interest owned by the federal government, including 78 JSCs in which the federal government holds a golden share.¹

Rosimushchestvo, however, could fully exercise shareholder rights with respect to only 529 out of 1298 JSCs (40.8 percent compared with 46.1 percent as of summer 2016 and 52.1 percent as of summer 2012); therefore, past year's changes followed the trend since 2014 towards continuous contraction of the percentage share of companies where Rosimushchestvo can fully exercise shareholder rights.²

¹ The 2016 year-end report on the management of federally owned shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies.

² The absence of restrictions on Rosimushchestvo's shareholder rights does not necessarily mean that sector-specific federal executive authorities involved in the process on a common basis have no corporate governance powers in respective companies, based on the division of powers set forth in the Provision of Federally Owned Shares in Joint-Stock Companies and the Russian Federation's Golden Share (*Participation in Corporate*

The rest of 769 companies were:

– JSCs with shareholder rights transferred on the federal government’s behalf to other federal executive authorities and federally owned corporations (e.g., to the Ministry of Defense of Russia, GC Rostec, Rosatom, or a deed of trust was concluded with such JSCs) (306 JSCs, or 23.6 percent of total JSCs);¹

– JSCs in which the federal government owned an interest of less than 2 percent, where under Chapter 1, Article 53 of Federal Act No. 208-FZ ‘On Joint-Stock Companies’ dated December 26, 1995 the shareholder is not entitled to put matters on the agenda of a general meeting of shareholders) (276 JSCs, or 21.3 percent of total JSCs);

– JSCs in bankruptcy proceedings (135 JSCs, or 10.4 percent of total JSCs);

– JSCs in liquidation, reorganization (36 JSCs, or 2.8 percent of total JSCs);

– JSCs in which the Russian Federation had de facto no ownership interest (e.g., federally owned shares were previously privatized, contributed to the equity of vertically-integrated companies (hereinafter VICs) or in the stage of federal ownership registration) (16 JSCs, or 1.2 percent of total JSCs).

Data on recent years’ changes in the population of JSCs where Rosimushchestvo’s shareholder rights were restricted, including the grounds for restrictions, are presented in *Table 2*.

The first thing to be noted is that the absolute number of JSCs where Rosimushchestvo’s shareholder rights are restricted decreased by more than 10 percent (or nearly 90 JSCs) from 2016, marking the deepest annual decline since 2013, which was caused primarily by a more than 1/5 decline in the number of JSCs in which the federal government owned a minority interest of less than 2 percent. The number of companies in bankruptcy proceedings decreased by 15 (or by one tenth) and of those in liquidation and reorganization by 12 (or by one fourth).

Table 2

Quantity and structure of joint-stock companies with government equity participation where Rosimushchestvo’s shareholder rights are restricted, 2012–2017

Total		Government interest is less than 2 percent		Shareholder rights transferred to other entities		In bankruptcy proceedings		In liquidation		Government has no ownership interest	
quantity	as a percentage of total JSCs	quantity	as a percentage of total JSCs	quantity	as a percentage of total JSCs	quantity	as a percentage of total JSCs	quantity	as a percentage of total JSCs	quantity	as a percentage of total JSCs
As of August 01, 2012											
1258	47.9	434	16.5	387	14.75	156	5.95	55	2.1	226	8.6
As of August 01, 2013											
988	42.3	465	19.95	316	13.55	145	6.2	59	2.5	3	0.1

Governance) in Joint-Stock Companies (adopted by Government Executive Order No. 738 dated December 03, 2004).

¹ Making a single group of JSCs where shareholder rights on the government’s behalf are transferred to other than Rosimushchestvo federal executive authorities, government corporations (GCs) and trustees does not seem quite correct because one of the base characteristics of GCs as corporate entities falling into the category of not-for-profit institutions under the Russian legislation is GC’s ownership of their assets/properties, which by and large must include federally owned shares transferred to them in the form of asset contribution.

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As of July 7, 2014												
949	45.3	436/ 78 ^b	20.8	302	14.4	146	7.0	57	2.7	8	0.4	
As of August 01, 2015												
884	47.4	373/ 75 ^b	20.0	291	15.6	151	8.1	60 ^d	3.2	9	0.5	
As of August 01, 2016												
858	53.85	349/ 61 ^b	21.9	297	18.65	150	9.4	48 ^d	3.0	14	0.9	
As of August 01, 2017												
769	59.25	276/ 60 ^b	21.25	306	23.6	135	10.4	36 ^d	2.8	16	1.2	

^a under Chapter 1, Article 53 of Federal Act No. 208-FZ 'On Joint-Stock Companies' dated December 26, 1995 the shareholder is not entitled to put matters on the agenda of a general meeting of shareholders;

^b the denominator shows the number of JSCs in which the Russian Federation concurrently holds a golden share (participation in corporate governance);

^c other government executive authorities, federally owned corporations, or there were trust deeds in effect;

^d including JSCs under reorganization;

^e in which the Russian Federation held *de facto* no ownership interest (federally owned shares were previously privatized, contributed to the equity of vertically-integrated companies, issue of shares is not registered, cessation of business due to liquidation or reorganization), but the data was on the stage of registration with the register.

Source: Rosimushchestvo's 2011–2016 year-end reports on the management of federally owned equity shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies, own calculations.

The number of JSCs in which shareholder rights were transferred to other entities, and in which the Russian Federation held *de facto* no ownership interest increased marginally, but in aggregate the increase (up 11 JSCs) was less in absolute terms than the decline in the number of JSCs in liquidation and reorganization. As a result, the JSCs where Rosimushchestvo's shareholder rights were restricted made up the biggest group of companies with shareholder rights transferred to other entities (23.6 percent), whereas in 2016, by contrast, the biggest group was comprised of JSCs in which the federal government owned an interest of less than 2 percent.

The decline in the share of companies in which the federal government had no full control was led not only by increase in the share of JSCs in which the federal government owned a minority interest of less than 2 percent, but also due to selected privatization priorities with regard to companies where Rosimushchestvo could fully exercise shareholder rights (*Table 3*).

Table 3

Dynamics of quantity and structure of shareholding companies by share of government equity participation and by inclusion in forecast privatization plans in 2012–2017

Date	Shareholding companies (JSCs and LLCs)									
	JSCs total	interest, percent	where government's interest comprises							
			100 percent		50–100 percent		25–50 percent		2–25 percent	
			quantity	percent	quantity	percent	quantity	percent	quantity	percent
As of August 01, 2012										
– JSCs where Rosimushchestvo could fully exercise shareholder rights*	1371/ 2629**	100.0	886	64.6	76	5.55	211	15.4	198	14.45
As of August 01, 2013										

– JSCs where Rosimushchestvo could fully exercise shareholder rights*	1345/ 2333**	100.0	874	65.0	83	6.15	185	13.75	203	15.1
– JSCs included in forecast privatization plans***	975	100.0	716	73.4	41	4.2	116	11.9	102	10.5
As of July 7, 2014										
– JSCs where Rosimushchestvo could fully exercise shareholder rights*	1147/ 2096**	100.0	709	61.8	66	5.8	171	14.9	201	17.5
– JSCs included in forecast privatization plans***	842	100.0	596	70.8	36	4.3	113	13.4	97	11.5
As of August 01, 2015										
– JSCs where Rosimushchestvo could fully exercise shareholder rights*	980/ 1864**	100.0	589	60.1	55	5.6	142	14.5	194	19.8
– JSCs included in forecast privatization plans***	668	100.0	469	70.2	18	2.7	90	13.5	91	13.6
As of August 01, 2016										
– JSCs where Rosimushchestvo could fully exercise shareholder rights*	735/ 1593**	100.0	469	63.8	48	6.5	91	12.4	127	17.3
– JSCs included in forecast privatization plans***	478	100.0	336	70.3	14	2.9	56	11.7	72	15.1
As of August 01, 2017										
– JSCs where Rosimushchestvo could fully exercise shareholder rights*	529/ 1298**	100.0	325	61.4	38	7.2	76	14.4	90	17.0
– JSCs included in forecast privatization plans***	278	100.0	176	63.3	11	4.0	51	18.3	40	14.4

* exclusive of (1) JSCs where the federal government owned an interest of less than 2 percent, (2) JSCs where shareholder rights on the federal government's behalf were executed by other entities (other government executive authorities, federally owned corporations, or under fiduciary management agreements), (3) JSCs in bankruptcy (in bankruptcy proceedings), (4) JSCs in liquidation, (5) JSCs in which the Russian Federation had de facto no ownership interest (federally owned shares were previously privatized, contributed to the equity of vertically-integrated companies);

** the denominator shows total number of JSCs according to data from the federal property register;

*** including only those in which Rosimushchestvo could fully exercise shareholder rights.

Source: Rosimushchestvo's 2011–2016 year-end reports on the management of federally owned equity shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies; own calculations.

Table 3 presents data showing growth drivers in the share of companies where the federal government had no full control due a small government ownership interest. The point is that within the population of shareholding companies in which Rosimushchestvo (The Federal Agency for State Property Management) could fully exercise shareholder rights, the share of shareholding companies with federal government's full, controlling and blocking interest were included in privatization programs of 2011–2013 and 2014–2016 is generally bigger than the share of companies in which the federal government owned a minority interest. Forecast privatization plans included not more than half of the latter, 80 percent and more of companies in which the federal government owned a controlling interest, approximately 50 percent and

more of companies in which the federal government owned a majority interest,¹ and more than 60 percent of companies in which the federal government held a blocking interest (*Table 4*).

Table 4

Share of JSCs, covered by forecast privatization plans, of total shareholding companies where Rosimushchestvo could fully exercise shareholder rights, by amount of government ownership interest, 2012–2016, percent

Date	Full interest (100 percent)	Controlling interest (50–100 percent)	Blocking interest (25–50 percent)	Minority interest (2–25 percent)
As of August 01, 2013	81.9	49.4	62.7	50.2
As of July 07, 2014	84.1	54.5	66.1	48.3
As of August 01, 2015	79.6	32.7	63.4	46.9
As of August 01, 2016	71.6	29.2	61.5	56.7
As of August 01, 2017	54.2	28.9	67.1	44.4

Source: Rosimushchestvo’s 2011–2016 year-end reports on the management of federally owned equity shares in publicly-traded companies and the federal government’s golden share (participation in corporate governance) in publicly-traded companies, own calculations.

The said trend saw a minor correction in 2016. The share of companies (covered by the privatization program) in which the federal government owned a minority interest more than doubled (approximately 57 percent), which was less than the share of companies in which the federal government owned a controlling interest (nearly 72 percent) and a blocking interest (61.5 percent), whereas the share of companies in which the federal government owned a majority interest was less than 30 percent. The 2017 ratio was approximately the same between the groups of companies. However, the percentage of JSCs (covered by a new forecast privatization plan) in which the federal government owned a minority interest came out to be the smallest in five years (44.4 percent). Furthermore, although the share of JSCs with a government full ownership interest dropped noticeably, it stood above 50 percent (54.2 percent). By contrast, the share of blocking ownership interest came out to be the biggest (more than 2/3).

An examination of data from the performance measures framework for federal property management, including but not limited to federal level, provides the following results (*Table 5*).

Table 5

Number of public-sector organizations registered with Rosimushchestvo, including its local branches, and with federal property managers of subjects of the Russian Federation in 2013–2014 and number of economic agents relating government property, 2016–2017 (according to state registration data) by legal form of business

Date	Total	SUEs including federal treasury enterprises	Government agencies	Shareholding companies	
				with government ownership interest of more than 50 percent	in which public-sector shareholding companies have ownership interest of more than 50 percent
as of January 1, 2013	67003 ^a	4891	56247	3501	2364
As of July 1, 2013	66131 ^a	4589	56100	3201	2241
as of January 1, 2014	64616 ^a	4408	54699	3097	2412
As of July 1, 2014	63635 ^a	4236	54173	2988	2238
as of January 1, 2016	65587 ^b	4284	56693/56649 ^c	3888 ^d	...

¹ Excluding 2015, when the share of companies (covered by the privatization program) with a federal government majority ownership stood at 1/3 or less.

As of July 1, 2016	65218 ^b	3982	56893/56856 ^c	3718 ^d	...
as of January 1, 2017	64457 ^b	3719	56548/56507 ^c	3532 ^d	...
As of July 1, 2017	62655 ^b	3294	55414/55361 ^e	3353 ^d	...

^a including organizations whose state-registered articles of association do not provide specific types, but exclusive of joint-stock companies in which an interest of more than 50 percent is jointly owned by the federal government and foreign companies;

^b including economic agents with a legal form of business other than unitary enterprises, government agencies and shareholding companies (workmen's cooperative associations and consumer cooperatives, associations (unions), condominium associations, funds, public not-for-profit organizations, etc.);

^c exclusive of national science academies and private institutions that are not classified as institutions under the new Framework but must be excluded to ensure a correct comparison;

^d total number of shareholding companies regardless of the amount of government's ownership interest (equity participation), data on the number of shareholding companies with a controlling interest owned by the federal government are only available for JSCs with an interest owned by the federal government;

^e total institutions established by the Russian Federation and subjects of the Russian Federation (excluding national science academies and private institutions that under the new Framework are classified as institutions but must be excluded to ensure a correct comparison).

Source: The Development of Public Sector of Economy in the Russian Federation in 2012 (pp. 7–11), in H1 2013 (pp. 7–11), 2013 (pp. 7–11), in H1 2014 (pp. 7–11), M., Rosstat, 2013–2014, Statistical data on indicators for efficient management of federally owned property, www.gks.ru, March 20, 2016, September 05, 2016, March 20, 2017, September 05, 2017.

The total number of economic agents in federal ownership, under the new framework, stood at about 62.7 thousand by mid-2017, approximately 2.6 thousand (or by 4 percent) less than previous year's number and approximately 1 thousand less than that reported in mid-2014.¹

The number of unitary enterprises decreased from mid-2016 by approximately 700 (or more than 17 percent) for certain categories of economic agents, by more than 350 (or nearly 10 percent) for shareholding companies, by nearly 1.5 thousand (or by 2.6 percent) for government agencies. However, the number of government agencies by mid-2017 still remained bigger than 3 years ago.

An examination of the dynamics over a shorter timeframe shows that in H1 2017 the number of unitary enterprises decreased by 11.4 percent, shareholding companies by more than 5 percent, government agencies by 2 percent.

6.1.2. Privatization policy

The Forecast Plan (Program) for Federal Property Privatization and Guidelines for Federal Property Privatization for 2017–2019 adopted by Russian Government's executive order No. 227-r dated February 08, 2017 kicked off in the previous year. This was the third privatization program developed given an extension of the scheduled period (from 1 to 3 years) of the Forecast Plan (Program) For Federal Property Privatization based on the spring-2010 amendments to the existing Privatization Act. Updates and amendments were not made on a regular basis. A total of 15 laws and regulations containing amendments were adopted in 2017 (22 in 2014), when the previous 3-year program kicked off, plus three in December 2013).

As a reminder, the new privatization program included seven companies whose privatization was based on special decisions of the Russian President and the Russian Government with due regard to market trends and recommendations of lead investment consultants, including four companies (AO NCSP Group (NCSP), United Grain Company, Prioksky Non-Ferrous Metals

¹ Although the recent public sector development bulletin was released for the period of January-September 2014, the semiannual data dated as of July 01, 2014 also can be applied to a medium-term analysis.

Plant (PNFMP), Kristall Production Corporation) in which the federal government plans to cease to hold its stake, and three companies in which the federal government plans to reduce its stake: to 29 percent plus one share in ALROSA and to 25 percent plus one share in Sovkomflot and VTB Bank (PAO). However, no information on pending deals for the companies is available, except that deals were preliminary announced for VTB Bank (PAO), Sovkomflot and NCSP.¹ In his interview in Q1 2018 Head of Rosimushchestvo Dmitry Pristanskov said preparations were underway with regard to Sovkomflot and United Grain Company (the latter is being worked out jointly with The Ministry of Agriculture of Russia), whereas a VTB deal was not on the table yet.²

2017 saw the completion of consolidation of Vnukovo and Sheremetyevo airports that was launched under the previous privatization program of 2014–2016. In late spring 2017, AO Sheremetyevo International Airport (hereinafter AO SIA) was finally reorganized through merger of AO Sheremetyevo Airport to which the federal government previously contributed 83.04 percent of its interest in AO Sheremetyevo International Airport (SIA). The federal government's interest (30.43 percent) in the consolidated operator entered into the list of strategic JSCs. In early fall 2017, the reorganization of AO Vnukovo Airport, AO Vnukovo Invest and OOO AVIATECHINVEST was completed through merger with AO Vnukovo International Airport in which the federal government owns an interest of slightly more than 25 percent.

Apart from that, the year-end results are as follows. According to data from the Federal Budget Execution Progress Report dated as of January 1, 2018 (by source of federal budget deficit internal financing) that was published on the official website of the Federal Treasury of Russia, proceeds from disposition of shares and other forms of equity participation of the federal government amounted to RUB 14284.5 million, that's more than double the federal budget revenues from privatization forecast in the privatization program (RUB 5.6 billion annually, excluding equity shares in biggest companies).

More than half of the amount (RUB 8531.7 million) came from the implementation of Russian Government's executive orders No. 1430-r dated September 02, 2010 and No. 1172-r of June 09, 2016 as well as the terms and conditions stipulated by the Sub-agreement of June 23, 2016 to the Agreement of October 9, 2010 between Rosimushchestvo and PAO FC Sistema concerning a hire purchase (within five years) of USD 777 million worth of 547,312,918 federally owned equity shares in Shyam Teleservices Ltd., a joint venture between Russia-based Sistema Group and Shyam Group of India whose ordinary shares, due to an increase in its equity by a total amount (in Indian Rupees) equivalent to USD 600 million, were acquired by the Russian Federation in 2010 under a Russia-India agreement expanding the use of money coming from India's repayment to the Russian Federation for loans that India obtained from the former Soviet Union and from the Russian Federation in 2007, and The Federal Budget Act of 2010–2012. The above deal involving an asset not covered by the existing privatization program became the only deal outside the scope of standard privatization procedures. It is difficult to comment on the deal because assets of this type (with government equity participation in joint ventures) were seldom privatized. Putting aside behind-the-scenes details, the only thing to say is that the amount (more than RUB 8.5 billion) received by the federal government is less than one fifth of USD 777 million, at *the exchange rate quoted as of end-June 2016*.

¹ www.rosim.ru, January 26, 2017.

² www.rosim.ru, February 28, 2018.

Excluding the above amount, RUB 5.19 billion worth of 46 shares (interests) in shareholding companies (JSCs) were sold in 2017, and decisions on terms of privatization were made with regard to 18 federal state unitary enterprises (FSUEs). The number of sold shares (interests) in shareholding companies was almost one fourth as much as that (179) in 2016, below the pre-crisis level of 2009 (52 companies), the lowest in the 2000s. More than three thirds (36) of the overall sold shares were specified in tender announcements made back in 2016. The amount of deals (RUB 5.19 billion) fell less dramatically (45 percent) but was below annual figures posted over the previous three years (RUB 8.0 billion in 2014, RUB 7.3 billion in 2015, RUB 9.5 billion in 2016). The number of privatized FSUEs also came out to be less than the lowest amount (26) seen in 2013 (*Table 6*).

Table 6

Comparative data on dynamics of privatization of FSUEs and federally owned shares, 2008–2017

Period	Number of privatized federally owned enterprises (federal property) (according to data from Rosimushchestvo)		
	Privatized FSUEs, quantity	sold equity shares in JSCs, quantity	sold federal treasury properties, quantity
2008	213	209 ^b	...
2009	316+256 ^c	52 ^b	...
2010	62	134 ^b	...
2008–2010	591+256 ^c	395 ^b	... ^d
2011	143	317 ^e /359 ^b	3
2012	47 ^f	265 ^f	40
2013	26	148 ^f	22
2011–2013	216	730 ^e	65
2014	33	107 ^e	12
2015	35 ^g	103 ^e	38
2016	60 ^g	179 ^e	282
2014–2016	125 ^g	389 ^e	332
2017	18	46 ^b	77 ^b

^a all preparatory works were completed and decisions on terms of privatization made;

^b including shares (incl. federal treasury properties for 2017) announced for sale in the previous year;

^c the number of FSUEs where the public-offer decision was made by the Ministry of Defense of Russia in addition to those where the same decision was made by Rosimushchestvo;

^d the available information on disposition of other assets in the specified period is reduced to four military immovable properties in the period between October 2008 and January 2009, as well as decisions made on terms of privatization and on publication of tender announcements in late 2010, for which bidding results were summarized in 2011;

^e excluding disposition of shares with investment consultants' assistance;

^f estimated value based on data from the Rosimushchestvo's Report on Execution of the Forecast Plan (Program) For Federal Property Privatization 2011–2013 with regard to the total number (216) of FSUEs where executive orders on terms of public-offer privatization were issued in 2011–2013, and on the year-end data for 2011 and 2013;

^g with regard to certain enterprises where decisions on terms of privatization were revoked in 2015–2016 and then made again; therefore the total number of FSUEs where privatization decisions were made during three separate years is somewhat bigger than that shown in the tabular year-end data for 2014–2016 (125).

Source: Rosimushchestvo's Performance Report in 2008; Report on Execution of the Forecast Plan (Program) For Federal Property Privatization за 2009, М., 2010; Ministry of Economic Development's Final Report for Federal Property Privatization in 2010; The Ministry of Economic Development's 2011 Final Report for Federal Property Privatization; The Report on Execution of the Forecast Plan (Program) For Federal Property Privatization 2011–2013; The Report on Execution of the Forecast Plan (Program) For Federal Property Privatization 2014–2016 in 2014, www.rosim.ru, February 19, 2015; The Report on Execution of the Forecast Plan (Program) For Federal Property Privatization 2014–2016 in 2015, www.rosim.ru, February 08, 2016, Report on Execution of the Forecast Plan (Program) For Federal Property Privatization 2014–2016 in 2016; The Report on Execution of the Forecast Plan (Program) for Federal Property Privatization 2017–2019 in 2017.

The biggest deal was disposition of 100 percent interest (RUB 1515 million) in AO Shyolkovsky Factory of Secondary Precious Metals (Moscow Oblast). The deal was conducted by AO The Auction House of the Russian Federation (AHRF), including four bidders that took 602 steps to raise the price by one fourth to RUB 301 million.¹ The top-5 sales also included a Moscow-based printing house (RUB 1115.5 million), Novosibirsk Refinery Plant (RUB 880 million), Skochinsky Mining Institute (Moscow Oblast, RUB 354 million), Moscow Central Multi-Corporate Enterprise of Construction Engineering Research (RUB 202.2 million). Therefore, more than 60 percent of revenues from standard disposition of equity shares in JSCs operating within the Moscow metropolitan area, where real-estate ownership per se provides ample income opportunities apart from (or instead of) core business activities.

Disposition of 17 shares (out of the 65 shares offered) worth RUB 4.84 billion (93.3 percent of total revenues) in AO RAD contributed most to the final outputs. The 2017 year-end total amount of deals is comparable with that (RUB 5.3 billion) seen in 2015, but the number of sold shares halved (17 from 34). Final results of disposition of equity shares in 38 JSCs including 20 JSCs whose shares were sold by independent sellers (AO RAD, OOO VEB Capital) are expected to be summarized in Q1 2018.

In 2017, the number of sold federal treasury properties (77), which, like in the previous year, was bigger than the number sold shares (interest) in shareholding companies, decreased by nearly 3.7 times from 2016 (282), doubling the number (38) seen in 2015. Similar to shares (interests), however, the overwhelming share (67) of sold properties included properties announced for sale in 2016.

At the same time, announcements of disposition of 204 properties were published in 2017, 10 of which were sold, whereas bidding for 69 properties was declared void, and sales results for another 125 are to be summarized in Q1 2018. Therefore, excluding the most recent large group, the sales were less than 13 percent successful. Total amount of deals decreased by 4.5 times (to RUB 282.67 million). Unlike with shares (stakes), independent sellers play a supplementary role in selling federal treasury properties. AO RAD sold only 9 (RUB 28.60 million) out of the 56 properties it was entitled to sell, thereby contributing only 10 percent to the final outputs.

In 2017, Rosimushchestvo took measures to establish and expand 13 vertically-integrated companies in pursuance of Russian President's executive orders (18) and Russian Government's decisions (6) on the establishment/expansion of vertically-integrated companies. In this respect, 36 FSUEs, equity shares in 44 JSCs and in 10 federal treasury properties were included in the 3-year privatization program. As of 2016 year-end, decisions on terms of privatization were made for 14 FSUEs, 38 JSCs and one federal treasury property.

The last year's slump in privatization dynamics is explained in part by relatively late adoption of a forecast plan (program); therefore it was not until the middle of Q1 2017 that asset evaluation and presale preparations were started.

The key reason, however, was lack of adequate demand, particularly at local level, as was acknowledged by Rosimushchestvo's managers in the middle of the fall of 2017.² Approximately 60 percent of failed auctions were due to lack of bids (126 out of 209 (total sales) in 2017). Most of the privatized assets were low liquid assets with restricted sales

¹ www.rosim.ru, March 22, 2017.

² www.rosim.ru, October 19, 2017.

opportunities because of weak financial standing, pre-bankruptcy, lack of actual business operations, and a gap between offered prices and potential purchase estimates.

Transition to a new sales mechanism whereby sales arranger's services are paid by buyers (not out of the federal budget) and deals are conducted only in electronic format (via six platforms selected in late 2015) possibly played a certain role as well. Lots are distributed between them in an open manner, in random order at meetings of a core committee. In order to increase transparency, lots are distributed in presence of authorized representatives of each electronic platform as well as representatives of the Federal Antimonopoly Service of the Russian Federation (FAS) and the Ministry of Economic Development of Russia. Assets are sold in different formats in accordance with key forms of privatization (auctions, public offering and Dutch auctions). Natural persons and corporate entities across the country can participate in sales that are held on platforms well known for purchasers.

Neither the previous year's Federal Budget Act nor the 2018–2020 Federal Budget Act No. 362-FZ of December 5, 2017, including the schedules thereto, provide explicit information on the amount of revenues from privatization. In addition, an explanatory note to a federal government's bill specified revenues from federal property privatization and public borrowings as separate sources of financing of the federal budget deficit. As distinct from previous years' bills, the 2017 federal budget bill and some of the documents attached thereto contained data from the Forecast Plan (Program) For Federal Property Privatization that underpinned the forecast for federal budget revenues from privatization. The same data were provided in the explanatory note and in estimates for the breakdown of budget deficit sources of financing.

Federal budget revenues from federal property privatization are projected at RUB 13.0 billion in 2018, RUB 12.2 billion in 2019, RUB 11.4 billion in 2020. They will represent the least possible contribution to the federal budget deficit financing: revenues from privatization are projected at 1.7 percent of fundraising via public borrowings in 2018, 1.5 and 1.1 percent in 2019 and 2020, respectively. The values for 2018–2019 are less than forecast proceeds from disposition of federal property, excluding equity shares in biggest companies specified in documents attached to the Federal Budget Bill for 2017 and the Planning Period of 2018–2019 that was submitted by the Russian Government in fall 2017 (RUB 13.6 billion in 2018 and RUB 13.9 billion in 2019).

According to the 2017 outputs of the ongoing Forecast Plan (Program) For Federal Property Privatization, it's highly likely that the foregoing projection for revenues from privatization will be correct. According to data from federal budget reports, the amount of proceeds from disposition of shares and other forms of government equity participation (RUB 14.3 billion) is higher than the amount projected for 2018–2020.

The projected federal budget revenues from privatization are based on the Privatization Program for 2017–2019 adopted in early 2017 by Russian Government's executive order No. 227 that announced privatization of seven biggest companies in accordance with decisions of the Russian President and the Russian Government when establishing specific dates and procedures with consideration for market trends and recommendations of lead investment consultants. The Russian Government has made no decisions on disposition of blocks of equity shares in biggest companies in 2018–2020; therefore there are no projections for proceeds from disposition of such blocks of shares in 2018 and in the planning period of 2019–2020, according to Rosimushchestvo.

6.1.3. Amendments to privatization laws and regulations

The past year was marked by major amendments to privatization laws and regulations.

In July 2017, the Privatization Act in force since 2001 underwent a drastic amendment regarding the list of purchasers of federal and municipal property (Article 5 thereof). The stop list of purchasers was extended. Prior to the amendment, only federal and municipal unitary enterprises and agencies, corporate entities in which the Russian Federation, subjects of the Russian Federation and municipalities own an interest of more than 25 percent, except when federal and municipal property are contributed to the charter capital of companies, could be deemed to be eligible to purchase federal and municipal property. Under the new amendment, purchasers also can be corporate entities registered in nations or territories included in the Finance Ministry's list of nations and territories that offer easy tax terms and/or do not disclose/provide information concerning financial operations (offshore zones) (hereinafter offshore companies)¹, as well as corporate entities controlled by an offshore company or by a group of persons running an offshore company. The terms "group of persons" and "control" are applied within the meaning of Articles 9 and 11 of the Competition Protection Act 2006.

The federal government thus used in part its recently debated endeavors to tighten privatization regulations.² New restrictions were imposed on purchasers of federal or municipal property announced for sale on the official website and defined since July 1, 2017 by the Russian Government³ in compliance with amendments to the Act 2008 Concerning Procedures for Foreign Investment in Economic Facilities of Strategic Importance for National Defense and Security (No. 57-FZ). According to Rosimushchestvo's representatives, the task set by the Russian President in early 2016 to find new owners of privatized assets within the Russian jurisdiction and to prevent further offshorization of the Russian economy was thus been accomplished. A legal mechanism is under elaboration to prevent, through disclosure of data on beneficiaries, "nominal" corporate entities from participating in privatization.⁴

Another last year's critical amendment was a provision adopted by Russian Government's executive order No. 748 dated June 26, 2017 with regard to selection of legal entities for arranging on behalf of the Russian Federation disposition of privatized federal property and/or exercise the seller functions.

The cumbersome selection procedure includes decisions on selection and establishment of a selection committee, plus a two-stage selection procedure.

A pivotal role in the process is assigned to the Ministry of Economic Development which in pursuance of orders and instructions of the Russian President or the Russian Government decides to launch a selection procedure approved by an order specifying federally owned properties that are planned to be privatized, the composition (including not less than five members of the Ministry⁵) of the selection committee led by a chairperson in the capacity of deputy minister. Another essential role is assigned to the committee secretary in charge of collecting bids from corporate entities, drafting and publishing of tender announcements. Persons having personal interest in final selection results, or persons affiliated with bidders may not be members of the committee.

¹ The list contains 40 countries. Cyprus, a traditional in recent 25 years source of pseudo-foreign investment for the Russian economy, was, however, removed from the list in 2012.

² See Gaidar Institute's annual reviews: Russia's Economy in 2014: Trends and Outlooks (Issue 36). M., 2015, p. 393 and Russia's Economy in 2015: Trends and Outlooks (Issue 37). M., 2015, p. 388.

However, other proposed regulations regarding law-enforcement agencies' powers to check on bidders in privatization deals and the liability of valutors have not been enacted yet.

³ www.torgi.gov.ru

⁴ www.rosim.ru, October 18, 2017.

⁵ Rosimushchestvo's representatives can be engaged to participate in the committee.

The selection committee shall take all decisions by open ballot recorded in the minutes thereto. Decisions shall be deemed taken when approved by more than half of the members votes cast. In the event of a tie, the chair of a committee meeting or, in his/her absence, the deputy chair shall be entitled to a casting vote.

Where selection is made with regard to federally owned properties specified in Section II of the privatization program and intended for disposition through auction, through public offering (if the auction is declared void), including in electronic format, the Ministry of Economic Development shall attach to its executive order information on disposition of such federally owned properties via specified channels. The property included in Section II of the Forecast Plan can be grouped into lots.

In pursuance of instructions and orders of the Russian President or the Russian Government, the Ministry of Economic Development may decide to terminate the selection procedure in any stage and publish a notice thereof on the Ministry's official website. Should corporate entities have questions regarding the selection procedure, they shall send their requests to the Ministry of Economic Development which shall respond thereto within three working days.

The initial stage of selection procedure includes collection of information on potential candidates for the purpose of federal property disposition and formalized comparison of their professional and qualification level on a score-based ranking.

Within 5 working days of the date of decision to start a selection procedure, the Ministry of Economic Development shall publish a notice thereof on its official website and send a letter of invitation by mail (the letter may be sent via e-mail or by fax) with attached draft agency agreement to be concluded with a corporate entity. Where the selection date is postponed, as shall be recorded in the minutes thereto, the selection committee shall publish a notice thereof on the Ministry's official website and communicate thereof to corporate entities by phone, fax or via e-mail.

Applications for participation in the selection procedure must be accepted within at least 15 calendar days. Corporate entities shall submit their applications in the manner and within the period prescribed by the notice published on the Ministry's official website and by the letter of invitation.

Corporate entity's application for participation in the selection procedure must include its obligations to: (1) sign an agent agreement with Rosimushchestvo; (2) conduct fair market valuation of federal property by a valuator under an agreement between the agent and the valuator on behalf and at the expense of the agent; (3) obtain on its own behalf and for its own account an expert report of a self-regulatory asset valuator on whether the market valuation report meets Russia's legal requirements and the valuation of equity shares is correct; (4) sign on behalf of the Russian Federation a purchase/sale agreement with purchasers of privatized federal property under the terms and conditions set forth in the agency agreement; (5) present a report on possible deal structuring that could maximize federal budget revenues.

Applications for participation in the selection procedure (apart from the attached letter of interest regarding organization on the federal government's behalf of disposition of privatized federal property and/or acting in the capacity of seller and documents authorizing a person in question to sign on behalf of the corporate entity an application for participation in the selection procedure) are based on information presented in two standard formats of presentation of

information of interest¹ signed by an authorized person. The information underpins corporate entity's scores in further ranking for selection purposes.

A corporate entity shall be liable for the authenticity of the information presented in the application for participation in the selection procedure. Where the information proves incorrect, the Ministry of Economic Development shall submit to the Russian Government a draft note to take the corporate entity off the list approved in 2010 and updated in 2017 (comprising 23 organizations). Corporate entities can modify or withdraw their applications, as shall be deemed valid at any period time before the expiration of the time limit for the *submission thereof* to the Ministry of Economic Development.

Envelopes with applications for participation in the selection procedure shall be opened at a meeting of the selection committee on the selection date specified in the notice thereof, as shall be recorded on the same date in the selection final protocol. Within 10 working days of the date of opening of envelopes with applications for participation in the selection procedure, the committee shall check on whether the applications meet the existing presentation requirements and corporate entities shall be ranked according to their scores.

Scores are determined (calculated) by indicators for the assessment of proposals of interest in two standard forms.

As prescribed by **Form 1**, scores are calculated by *three blocks of indicators*:

(I) corporate entity's qualifications and past experience;

(II) the composition of a team of corporate entity's personnel, as well as other natural and corporate entities engaged to participate in organization of disposition of property, that will prepare and organize the disposition of property;

(III) corporate entity's past experience in cooperation with government agencies.

A specific set of criteria is applied to each of the foregoing blocks. Blocks I and III refer to the number and the amount (USD in millions) of various deals in which a corporate entity was previously involved (as a global coordinator, bookrunner² (underwriter)³, lead organizer, consultant⁴).⁵

Block I includes four criteria: (1) corporate entity's (preparation and management of) equity offering deals in international markets in recent 3 years⁶ (excluding its own shares); (2) preparation and management of deals involving equity shares in Russian companies in recent five years (excluding shares in the corporate entity)⁷; (3) preparation and management of deals involving equity shares and other securities of companies operating in the core industry of

¹ Where selection concerns federal properties listed in Section II of the privatization program, information about a corporate entity shall be presented as prescribed by Form 2.

² Bookrunner is a firm involved in book building. The term is applied for investment purposes. Bookrunner can be underwriter, arranger and/or lead-manager, that is, normally an investment bank or company.

³ According to all the criteria set forth in Blocks I and III with regard to the role of bookrunner, the indicator for transaction volume per corporate entity must be calculated by dividing total transaction volume by the number of bookrunners involved in the deal.

⁴ According to all the criteria set forth in Blocks I and III, where the corporate entity is acting as consultant, all M&A deals for various groups of companies must be specified.

⁵ Only one role per deal can be specified. Only closed deals must be specified, and information must be based on data from independent rating agencies (Dealogic, Bloomberg (if no data available from Dealogic), Mergermarket (where information on M&A deals is presented) with obligatory reference to the source).

⁶ The role of global coordinator, or bookrunner (underwriter) in offering shares (of both Russian and foreign issuers) in international markets.

⁷ The role of global coordinator, or bookrunner (underwriter) in offering shares of Russian issuers (incorporated both in and outside Russia), consultant on M&A deals with Russian companies (incorporated in/outside Russia).

federal property¹; (4) participation (if any) in managing deals involving equity shares and other securities of federally owned properties.²

Block III includes two criteria: (1) cooperation with foreign governments (or government agencies acting on the authority of foreign governments) in organization of privatization deals and/or equity/securities offering³; (2) cooperation with the Russian Government, administrations of subjects of the Russian Federation (or government agencies acting on the authority of such administrations) in organization of privatization deals or equity/securities offering in recent five years.⁴

Block II includes five criteria: (1) persons (3 or less) in charge of organization and coordination of deals at top level (senior managers) who can, among other things, attend meetings with the seller and the issuer; (2) industry-specific bankers (availability of bankers specializing in the industry that will be involved in the deal); (3) specialists of equity capital markets (availability of specialists of equity capital markets that will be involved in the deal);⁵ (4) analytical unit (availability of personnel to provide analytical services for the company, sector-specific analysts of Extel and/or Institutional investor rankings); (5) specialists of trading in stocks and/or government bonds of Russian companies who will be involved in the deal (including their geographical distribution in bank offices).⁶

A set of assessment indicators for proposals of interest, as prescribed by Form 2, is much more moderate regarding selection of federal property included in Section II of the privatization program, and therefore standard procedures are applied to disposition of such federal property.

Block I includes only two criteria: (1) persons (3 or less) in charge of organization and coordination of deals at top level (senior managers); (2) analytical unit (personnel who will provide analytical services for the company (specifying the personnel's past experience in an attachment thereto).

¹ The role of global coordinator, or bookrunner (underwriter) in offering equity in companies operating in the core industry of federal property, lead arranger and/or bookrunner deals involving issuance of corporate bonds of companies operating in the core industry of federal property, consultant on M&A deals in the core industry of federal property.

² The role of global coordinator, or bookrunner (underwriter) in corporate equity shares offering, lead arranger and/or bookrunner in corporate bonds offering. By contrast to the above criteria, there is no requirement to calculate the transaction volume for a specific corporate entity by dividing total transaction volume by the number of bookrunners involved in the deal. As to the role of consultant, all the M&A deals that were made in the interests of the company must be specified.

³ The role of global coordinator, or bookrunner (underwriter) in privatization via offering of equity shares and/or depository receipts directly owned by the federal government, in managing equity offering and/or depository receipts of companies with government equity participation (apart from securities directly owned by the government), the role of lead arranger and/or bookrunner in managing the issuance of sovereign bonds, consultant in privatization through mergers and acquisitions.

⁴ The role of global coordinator, or bookrunner (underwriter) in privatization via offering equity shares and/or depository receipts directly owned by the federal government, in managing equity offering and/or depository receipts of companies with government equity participation (apart from securities directly owned by the government), the role of lead arranger and/or bookrunner in managing the issuance of sovereign bonds, consultant in privatization through mergers and acquisitions.

⁵ Criteria (2) and (3) include, apart from respective specialists, the Russian office (specifying, in a schedule thereto, offices located around the globe), the Russian language skills, key personnel (3 or less) who will manage the deal on a daily basis (including participation in meetings with seller's representatives).

⁶ The schedule for all groups of engaged personnel (except those involved in disposition of equity shares) contains their past experience, proper nominations for sector analysts, as well as details for senior managers, when necessary.

Block II includes a single criterion: cooperation with the Russian Government, administrations of subjects of the Russian Federation (or government agencies acting on their authority) in organizing privatization deals in recent five years (specifying all deals in which the corporate entity was involved as tender arranger (seller) in privatization of federal property, and total sales volume (in million of rubles)).

Scores based on assessment indicators for proposals of interest are calculated by special formulas, where a corporate entity is scored against each criterion and scores represent a sum of imputed values reflecting the results achieved while performing various roles based on past experience and qualification potential.

The said imputed values are calculated as the ratio of the indicator (e.g., the number of deals, total volume of completed sales, total staff), specified in the information attached to the application of a specific corporate entity, to the highest value of the indicator for a particular role, with allowance for respective coefficient, specified in applications for participation in selection procedure submitted by corporate entities.

Assessment indicators for proposals of interest include values of coefficients as prescribed by both forms for all the aforementioned criteria (specifying the highest score per each of them).

In both forms, the resulting score is calculated as a sum of all scores for blocks of assessment indicators for proposals of interest.

Not more than 5 corporate entities with highest scores that make them eligible for the second stage selection procedure shall be selected based on the final calculation of assessment indicators. Where corporate entities have submitted four or less proposals with regard to the same privatized federal property, assessment indicators shall not be calculated and such persons shall be qualified for *the second stage selection procedure*.

Within 10 working days from the date of selection committee's final protocol for applications for participation in the selection procedure the Ministry of Economic Development shall send by mail (or in e-document format) a decreasing coefficient request to corporate entities qualified for the second stage selection procedure.

The decreasing coefficient ranges within 1 and 0 and is applied to fee caps for organization on the federal government's behalf of disposition of privatized federal property and/or acting in the capacity of seller. Where a deal is conducted through auction, public offering or public listing, the fee cap may not be more than 2 percent, and, as the case may be, 1 percent. The fee includes all required corporate costs including fees paid to engaged corporate entities and mandatory payments under the Tax Code of the Russian Federation.

Corporate entities shall submit their decreasing coefficient bid in the manner and within the period prescribed by the decreasing coefficient request (not less than within 2 working days). Bids shall contain a letter in which corporate entities shall specify the amount of decreasing coefficient (including the amount in words) and which shall be delivered inside a separate sealed envelope. Like in the initial stage, corporate entities can modify or withdraw their bids at any period of time before the expiration of the time limit for the submission thereof to the Ministry of Economic Development.

Envelopes with decreasing coefficient bids shall be opened at a meeting of the selection committee on the first working day following the date of expiration of the time limit for the submission thereof. A final bid opening protocol shall be issued, containing the name of the winner, that is, a corporate entity with the lowest decreasing coefficient bid.

Where all bids contain the same decreasing coefficient, the selection committee shall decide to send another request to corporate entities to submit their decreasing coefficient bids.

The notice of final selection results shall be posted on the official website of the Ministry within 3 working days from the date of signing of the final bid opening protocol by the chair of the selection committee.

Based on the selection results, the Ministry of Economic Development shall prepare and submit to the Russian Government draft decisions to engage a corporate entity to arrange on the federal government's behalf disposition of privatized federal property and/or to exercise seller functions, and shall pay the corporate entity a fee for the foregoing services. The Russian Government shall include the following information in a draft decision: (a) the name of federally owned properties intended for privatization, (b) the winner's name, (c) the fee paid to the winner.

Obviously the proposed mechanism is an attempt to bridge one of the most serious gaps emerged in the regulatory and legal framework after a package of major amendments to Privatization Act was adopted late in spring 2010.

As a reminder, one of the attempts entitled the Russian Government to engage corporate entities to arrange disposition of privatized property. This actually referred, on the one hand, to engagement of investment consultants to organize deals involving disposition of equity shares in biggest companies specified in Section I of the privatization program, i.e. sales according to tailor-made schemes based on separate decisions, and on the other hand, engagement of private sellers to sell properties specified in Section II of the privatization program, and therefore standard procedures are applied to the disposition of such federal property.

The selection of the former and the latter has not been governed by any regulation to date.

In 2010, the Russian Government adopted a list of 23 corporate entities to be engaged to organize on the federal government's behalf disposition of privatized federal property and/or to act in the capacity of seller, of which the Ministry of Economic Development was in charge of the selection procedure. More than half of the listed companies are biggest foreign investment banks and companies: (Credit Suisse (Moscow), BNP Paribas Bank, Royal Bank of Scotland, Citigroup Global Markets, Unicredit Securities, SG Corporate Finance Advisory, Deutsche Bank, J.P. Morgan Bank International, Merrill Lynch Securities, Morgan Stanley, Barclays Capital, Raiffeisen Investment, UBS, a branch of private LLC GOLDMAN SACHS (Russia)). The Russian business was represented by banks (Sberbank, VTB Capital, Alfa-Bank, Gazprombank, MDM Bank) as well as other finance institutions (investment companies VEB Capital and Troika Dialog, Renaissance Broker Limited, OAO The Auction House of the Russian Federation). Sberbank was taken off the list in 2012, which nevertheless could conduct the respective activity via ZAO Sberbank CIB (formerly known as Troika Dialog).

Organizers for tailor-made deals in the course of 3-year privatization programs in 2011–2013 and in 2014–2016 were selected from the list. While less than a half of such deals (6 out of 13) were completed exclusively by Russian organizations in the course of the privatization program in 2011–2013¹, they played a key part under new conditions in the course of the privatization program in 2014–2016. In 2013, OAO The Auction House of the Russian Federation started acting as seller in disposition of property according to standard procedures. Furthermore, in 2014–2016 independent sellers (The Auction House of the Russian Federation and OOO VEB Capital) represented more than half of total proceeds (apart from biggest sales).

An updated version of the list was adopted shortly after approval of the aforementioned provision on selection of legal entities by Russian Government's executive order No. 1497-r

¹ Foreign finance institutions otherwise acted as agents, although subsidiaries and affiliates of privatized companies participated in particular cases (for example, Sberbank in 2012 and VTB in 2013).

dated July 14, 2017. The list continued to include 23 companies although their composition underwent drastic changes. Five corporate entities were taken off the list, most of which represented foreign capital (Deutsche Bank, Royal Bank of Scotland, Barclays Capital, SG Corporate Finance Advisory, as well as Russian MDM Bank), and representative offices of another three foreign entities changed their legal form.¹ At the same time, the list was extended to include PAO ROSBANK, Ernst & Young Valuation and Advisory Services LLC, ATON, AO RAEX Expert Agency, MEF-Audit Auditing and Consulting Group, Solid Financial House. Therefore, there was a shift toward Russian organizations, most of which were private nonbank entities.

Moving on to an analysis of legal entities selection to arrange on behalf of the Russian Federation disposition of privatized federal property and/or exercise the functions of seller, it's worth noticing that the proposed system built upon a combination of the initial selection focused on professional and qualification potential and the ultimate selection focused on the best bid of potential bidders has right to exist.

There is a whole host of drawbacks though.

First, the selection only can be applied to the list of 23 corporate entities.

Second, there is unsettled issue with respect to selection of privatized property for disposition under tailor-made schemes and otherwise, that is, distribution between Sections I and II of the privatization program. According to standard property disposition procedures, properties can be grouped into lots, but there are no well-defined grounds for the grouping.

Third, indicators for presentation of information of interest as prescribed by Form 1 (Block I (information of corporate entity's past experience)) upon the criterion of company's participation (if any) in management of deals involving equity shares and other federally owned securities of contain no confirmation requirement based on data from independent rating agencies. The same holds true past experience in cooperation with government agencies of both forms of presentation of information of interest.²

Fourth, indicators for presentation of information of interest as prescribed by Form 1 (Block 2 (the composition of corporate entity's team as well as other natural and corporate entities engaged to arrange disposition of property that will be involved in the preparation and disposition of properties) contain no past experience requirement with regard to Russian equity sales specialists as opposed to all other groups of specialists.

Fifth, there are questions to be answered regarding the degree of objectivity with regard to coefficients used for calculations, criteria-based highest scores, rating agencies' data as a source of information.

Sixth, there a many questions to be answered regarding the second-stage selection scheme in particular.

The Program lacks a well-defined fee cap, albeit some amounts (in percentage terms) are applied, for organization on the federal government's behalf of disposition of privatized federal property and/or acting in the capacity of seller.

It is unclear why the decreasing coefficient criterion applied to the fee cap is preferred to the classic price format applied to government procurement. The selection of the winner as a corporate entity that offers the lowest decreasing coefficient is even more controversial.

¹ Raiffeisen Bank, Citibank and Unicredit Bank replaced their respective finance companies.

² In Form 1, this applies only to the criterion regarding cooperation with administrations of subjects of the Russian Federation (or government agencies acting on the authority of such administrations) in organization of privatization deals or equity/securities offering in recent 5 years.

In general, considering that the July 2016 amendments to the Privatization Act established that the fee of specified corporate entities must be excluded from the price of federal property disposition and instead must be covered by the auction winner or through public offering on top of the fee, it is not at all obvious that the federal government should regulate the fee because the federal budget has ceased to be a source thereof. Under Article 6 thereof, however, the fee at the expense of the buyer is mentioned within the context of auction and public offering, thereby raising an important question about whether this regulation refers to disposition of property under tailor-made schemes based on separate decisions, and therefore the property is included in Section I of the privatization program.

Seventh, apart from apparent complexity of the selection mechanism as a whole, there is noticeable well-known contrast to the overall commitment to digitalization of managerial procedures: electronic sales and interconnection are mentioned among other things, regular mail and means of telephone communication can be used, the envelope opening plays a pivotal role.

In pursuance of the foregoing document, Russian Government's executive order No. 1720-r dated August 10, 2017 established a list of 65 JSCs whose blocks of equity shares are to be transferred to AO The Auction House of the Russian Federation (AHRF), a company 5-year experience, for disposition through auction and public offering (if the auction is declared void), with services paid under the new scheme.

The agent fee for managing and arranging disposition of equity shares must be excluded from the price of disposition of equity shares and instead must be paid by the winner¹ on top of the purchase price of privatized equity shares to agent's account within 5 working days from the date of disposition of equity shares in joint-stock companies to the amount established for each block of equity shares.

A 2 percent fee, measured as a percentage of the offering price, is paid for the overwhelming majority of 65 blocks of equity shares, except a 1.9 percent fee for 3 blocks, 1.89 percent for 2 blocks, 1.95 percent for one block of equity shares, with the lowest fee of 0.889 percent for AO Almazny Mir that was previously included in the privatization program in 2011–2013 (Section I). In 2015, an auction for a block of equity shares in AO Almazny Mir was suspended due to the imposition of interim measures in the course of arbitration proceedings in a third-party dispute between private shareholders. However, there is no information available on the selection of AO RAD under the new provision on selection of corporate entities to arrange on the federal government's behalf disposition of privatized federal property and/or to act in the capacity of seller.

In pursuance of the provision, Rosimushchestvo prepared and submitted to the Ministry of Economic Development proposals regarding 170 blocks of equity shares in JSCs covered by the ongoing privatization program to be further transferred to corporate entities authorized to act in the capacity of seller on the federal government's behalf for the purpose of privatization measures.

AO The Auction House of the Russian Federation and Limited Liability Company "Investment Company of Vnesheconombank" (VEB Capital) were announced the winners out of 147 shareholding companies selected by the Ministry of Economic Development, and therefore the Russian Government will be recommended to appoint the foregoing companies as

¹ However, the agent fee for disposition of unsold blocks of equity shares included in the list approved by Russian government's executive order No. 1419-r dated July 29, 2014 continued to be covered by federal budget appropriations.

sole contractors under a government contract for arrangement and disposition on the federal government's behalf of the federal property in question. Similarly, three companies (AO RAD and VEB Capital as well as AO RAEX Expert Agency) were selected with regard to 391 out of the 620 federal treasury properties proposed by Rosimushchestvo.

Various existing laws and regulations governing the privatization process were updated and amended by Russian Government's executive order No. 1164 dated September 26, 2017, including a provision on disposition of federal and municipal properties through auction, dedicated auction, public offering, sales with no price offer, as well as arrangement and disposition of federal or municipal property in electronic format.

Basically, the amendments intend to make it possible at regional and municipal levels to engage corporate entities to act in the capacity of seller under agreements on a competitive basis. New regulations were introduced to govern the relationship between them and bidders (tender guarantee¹ and its confirmation, imposition of sanctions for failure to comply with the transfer time limits, for winner's avoidance or refusal to enter into a purchase/sale agreement at a set date, information support, etc.).

Furthermore, regarding the improvement of privatization laws and regulations, Rosimushchestvo prepared amendments to the existing regulatory and legal framework (the Privatization Act, the Land Code and the provision on federal or municipal property tender) with regard to privatization of cultural heritage buildings/sites.

The key amendments intend to:

- refine the procedure of privatization of cultural heritage buildings/sites;
- provide an opportunity of privatization of cultural heritage buildings/sites in bad condition, save for the underlying land;
- impose extra requirements to confirm potential buyer's solvency.

The foregoing package is now under consideration by various federal executive authorities.

6.1.4. Administration of public-sector entities

The list of strategically important companies and joint-stock companies underwent changes in 2017.

The list was extended to include FSUE (Russian National Guard's FSUE Okhrana) and AO (VO Safety). Twelve FSUEs were taken off the list, of which six companies (including Kaliningrad Fishing Seaport, while the rest of them are related to the nuclear industry, the defense industry and air traffic control) will merge with other unitary enterprises, five companies will be incorporated into JSCs whose equity shares will be transferred as government asset contribution to government corporations (GCs) (GC Rosatom – 4², GC Rostec with a follow-up contribution to the charter capital of AO Concern Avtomatika – 1),

¹ Where corporate entities are engaged to sell properties through auction, public offering and in electronic format, the tender guarantee is to be credited to one of the accounts specified in the notice and opened with two and more credit institutions that meet the requirements set forth by Article 2 of Act No. 213-FZ dated July 21, 2014 "On Opening of Bank Accounts and Letters of Credit, on Conclusion of Bank Deposit Agreements, Agreements on *Securities Holders Register* Maintenance by Shareholding Companies that are of Strategic Importance for the Military-Industrial Complex and the National Security of the Russian Federation, and Amendments to Certain Legal Acts of the Russian Federation."

² On top of that, this government corporation is planned to receive an asset contribution of a full (100%) ownership interest in another two JSCs established through reorganization of FSUEs not listed in the list of strategically important companies.

and one company (Almazjuvelirexport Foreign Economic Association) will be incorporated into JSCs with the 100 percent government ownership interest.

There were another two essential entries to the list of strategically important companies: a 88.04 percent increase in the threshold of federal corporate control in PAO Rosseti Federal Grid Company and a 30.43 percent in Sheremetyevo International Airport (SIA). That was the third increase in the federal corporate control in the former (54.52 percent in 2012, 61.7 percent in 2013 and 85.31 percent in 2015), and the SIA is in a final stage of consolidation of its assets within the Moscow Aviation Hub.

The federal government's equity interest in AO Sheremetyevo International Airport was fixed at the end of reorganization, as was prescribed in 2015 by a presidential executive order that established the overall fix scheme. As a reminder, in 2015, the federally owned interest was lowered to an insignificant value (compared with 50 percent plus one share in 2011 and the original 100 percent). The reorganization of AO SIA includes merger of AO Sheremetyevo Airport established in 2016, to which the federal government contributed the main block of equity shares in AO Sheremetyevo International Airport (SIA), accounting for 83.04 percent of the total.

During 2017, Rosimushchestvo conducted policies to establish integrated entities where critical expansion decisions (through presidential executive orders) were previously issued (the transition of GC Rostec blocks of equity shares in Uralvagonzavod Corporation and equity shares in a few joint-stock companies, the charter capital of AO ROSNEFTEGAZ increased to include federally owned interest in 10 JSCs including six industry-specific research and development organizations, while the charter capital of PAO Transneft grew to include seven federally owned immovable properties and 625 land parcels).

The contribution of a federally owned (100 percent) interest in Bank "Rossiysky Capital" (PAO) to the charter capital of AO Agency for Housing Mortgage Lending (AHML) deserves a separate notice. Under the Federal Budget Act of 2017–2019 (Article 21, Paragraphs 11 and 14), the Russian Government is entitled to transfer from the Deposit Insurance Agency (DIA) to the Federal Treasury all common and preferred shares of Bank "Rossiysky Capital" (a publicly-traded company) owned and/or acquired by DIA in 2017 at the price such shares were purchased by DIA (book value) and contribute them to the charter capital of AHML by reducing government's asset contributions under the federal budget acts of 2008–2010 and 2014–2016 to the tune of up to RUB 92 billion.

Moving on to the issue of governance of shareholding companies with government's ownership interest, a high performance discipline (97 percent) of annual general meetings of shareholders in the 2016 corporate year is noteworthy. Annual general meetings were held in all the JSCs listed in the special list adopted by Russian Government's executive order No. 91-r dated January 23, 2003, where the federal government's position regarding some critical issues is regulated at government level (hereinafter the Special List), in all JSCs not listed in the special list, in which the Russian Federation is the sole shareholder, as well as in 90.68 percent of JSCs not listed in the special list, where the federal government owns an interest of more than 2 percent but less than 100 percent.

Further to Russian Government's decisions at general meetings of shareholders, 385 candidates as members of boards of directors (supervisory boards) of JSCs listed in the

special list were approved in the 2016 corporate year,¹ including 179 professional trustees (instead of 174 recommended for election based on final results of the Rosimushchestvo's Committee for Selection of Independent Directors, members representing the interests of the Russian Federation and independent experts for election as members of governing and supervisory boards of joint-stock companies), 75 independent directors (instead of 82 as recommended) and 131 civil servants (instead of 155 as recommended).²

Given the fact that in 2017 the total absolute number of government representatives in boards of directors of JSCs listed in the special list dropped to the level seen in 2010, shifts in the structure of representatives in corporate governing boards of companies of this group had an effect on the proportion between civil servants and professional trustees. The percentage of the former fell from 50 to 34 percent, whereas the percentage of the latter increased to 46.5 from 30.3 percent. The percentage of independent directors remained unchanged (nearly 20 percent) (*Table 7*).

In 2017, the structure of government representatives saw no significant changes and the proportion between civil servants, professional trustees and independent directors remained equal to that seen a year earlier. During the 5-year period of 2013–2017, the group of JSCs listed in the special list saw the number of civil servants per company increase to 2.73 from 2.0, professional directors to 5.29 from 5.24.³

The composition of audit committees in 2017 saw an increase in civil servants to 68.5 percent compared with 2/3 a year earlier (or 122 persons compared with 56 independent experts). Total number of the latter, however, more than doubled in recent four years, and their number per company increased to 1.17 in 2017 from 0.44 in 2013, with a minor decline from 2016 (1.32).

Table 7

**Dynamics and structure of government representatives
in governing and supervisory boards of JSCs on Special List,
2009–2017**

Year	JSCs, quantity	Government representatives in boards of directors (supervisory boards)								In audit committees: independent experts, quantity
		total		civil servants		professional trustees		independent directors		
		quantity	percent	quantity	percent	quantity	percent	quantity	percent	
2009	36	342	100.0	163	47.7	120	35.1	59	17.2	...
2010	49/59 ^a	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 ^b	63	452	100.0	127/122 ^c	28.1	228/245 ^c	50.4	97/102 ^c	21.5	27
2014	51	402	100.0	106/104 ^c	26.4	199/197 ^c	49.5	97/90 ^c	24.1	45
2015 ^b	50	390	100.0	118	30.3	178	45.6	94	24.1	54
2016 ^b	50	404	100.0	136	33.7	189	46.8	79	19.5	65
2017 ^d	48	385	100.0	131	34.0	179	46.5	75	19.5	56

^a there are some data on election of professional directors as members of governing boards of 59 JSCs;

^b including AO NCSP Group (NCSP), where only civil servants were elected as members of the NCSP board of directors and audit committee;

¹ Excluding PAO State Transport Leasing Company (where the Ministry of Transportation of Russia exercises shareholders rights), AO Corporation MIT (where GC Roscosmos exercises shareholders rights), including PAO Rosseti Federal Grid Company.

² The Russian government takes final decisions to approve candidates as members of governing and supervisory boards of JSCs listed in the special list.

³ According to graphic data, whereas the Rosimushchestvo's Report reported 5.30 persons per company.

^c there are some other data (in the denominator) on the composition of government representatives by category (these are possibly preliminary data although the 2014 cumulative number (287) of professional directors (professional trustees and independent directors) published by Rosimushchestvo was equal to the total number of persons of these groups shown in the denominator);

^d including NCSP and the Federal Grid Company of United Energy System (FGC UES), which, as of August 01, 2017, did not approve the composition of board of directors and audit committee at their 2017 annual general meetings of shareholders; therefore, data from Russian Government's directive No. 4643p-P13 dated July 03, 2017 at the annual general meeting of shareholders of September 15, 2017 were used.

Source: The 2011-2016 year-end reports on the management of federally owned equity shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies, own calculations.

With respect to formation of the composition structure of corporate governing boards of companies not listed in the special list (*Table 8*), professional directors and public servants held more than half of seats, 59 percent (931 persons) and 41 percent (646 persons), respectively, in 276 JSCs in which the federal government owned a controlling and blocking interest and therefore had 1577 seats in boards of directors (supervisory boards).¹ In 39 JSCs where the federal government owned a minority interest of less than 25 percent, the composition of members representing the federal government's interests in boards of directors (supervisory boards) was comprised of 100 percent civil servants (58 seats). Even with this factor in place, however, the number of civil servants in boards of directors (supervisory boards) of JSCs not listed in the special list dropped from 1101 in 2016.

Table 8

**Dynamics and structure of professional directors representing
the federal government in governing and supervisory boards of JSCs not listed
in Special List, 2009–2017**

Year	JSCs, quantity	Government representatives in boards of directors (supervisory boards) (excluding civil servants)						In audit committees: independent experts, quantity
		total		professional trustees		independent directors		
		quantity	percent	quantity	percent	quantity	percent	
2009	233	431	100.0	310	71.9	121	28.1	...
2010	389	707	100.0	493	69.7	214	30.3	...
2011	512	1109	100.0	830	74.8	279	25.2	...
2012	822	1860/1869*	100.0	1350	72.6	510/519*	27.4	23**
2013	637/ 245***	1715	100.0	1092	63.7	623	36.3	335
2014	683/ 159***	2094	100.0	1382	66.0	712	34.0	498
2015	527/ 151***	1660	100.0	1267	76.3	393	23.7	330
2016	479/ 123***	1535	100.0	1346	87.7	189	12.3	353
2017	297/ 107***	978	100.0	864	88.3	114	11.7	325

* there are some data on election of 1869 professional directors, including 519 independent directors;

** there are some data on election of 21 representatives (non-civil servants) in audit committees;

*** the denominator shows the number of JSCs with a controlling or minority interest owned by the federal government, where decisions to approve professional directors and independent experts as members of governing and supervisory boards were not taken due to various external factors.

¹ Excluding (1) 39 JSCs in which the federal government owned a non-blocking interest and (2) 107 JSCs in which the federal government owned a majority interest or a blocking interest, where decisions to approve professional directors and independent experts were not taken due to various external factors.

Source: The 2011-2016 year-end reports on the management of federally owned equity shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies, own calculations.

In 2017, as shown in *Table 8*, the trend towards higher share of professional trustees continued in the midst of drastic decrease (more than 1/3) in the absolute number of professional directors in the overall structure of representatives, and therefore the number of independent directors and their proportion among members representing the federal government (apart from civil servants) hit its lowest (114 persons, or 11.7 percent).

The number of independent experts in audit committees decreased 8 percent year-on-year in 2017, sliding below values seen in 2013 and 2015. The number of professional directors in boards of directors (supervisory boards) as per company increased from 3.20 to 3.29 as the number of independent experts in audit committees climbed from 0.73 to 1.09, doubling the number recorded in 2013.

By 2017 year-end, based on the results of the Committee for Selection of Candidates for the Election of Members of Governing and Auditing Boards in JSCs, Rosimushchestvo compiled a list of candidates for nomination and election as members of governing and supervisory boards of joint-stock companies with an interest owned by the federal government in the 2018 corporate year. One hundred and ninety (190) professional trustees and 68 independent directors as well as more than 60 independent experts were selected as members of boards of directors and audit committees of 48 JSCs listed in the special list. More than 110 professional trustees and independent directors as well as more than 31 independent experts were selected as members of governing and supervisory boards of other JSCs.¹

The following is noteworthy in respect to practical application of in-house regulatory documents of federally owned companies.

By early August 2017, boards of directors (supervisory boards) of 44 out of 50 JSCs listed in the special list approved their draft long-term development programs (LTDPs) and key performance indicators (KPIs) frameworks. LTDPs were in the draft stage in 2 JSCs, draft LTDPs were pending approval in 2 JSCs, and KPIs frameworks were in various stages of interdepartmental reconciliation in 2 JSCs.² LTDPs and KPIs progress reports for 2016 were in the draft stage in 37 companies, according to data from Rosimushchestvo.

The foregoing tools were used by approximately 60 percent of companies of a large group of JSCs not listed in the special list in which the federal government owned a joint interest of 50 percent or less, and where Rosimushchestvo exercises shareholder rights (252 JSCs). As of the specified date, 153 JSCs had their LTDPs approved (75 JSCs had their draft programs in the draft stage), 156 JSCs had their KPIs frameworks approved (72 JSCs had their KPIs frameworks in the draft stage).

Apart from developing a corporate development planning framework for the medium term (via LTDPs and KPIs), labor productivity growth policies continued to be under special control.

Forty three out of 50 JSCs companies listed in the special list developed a package (Action List) of labor productivity growth policies, 41 JSCs established metrics for this indicator and their labor productivity growth policies were embedded into LTDPs and management KPIs, 42 JSCs amended their labor agreements (contracts) with sole executive directors (SEDs) and

¹ www.rosim.ru, December 22, 2017.

² PAO State Transport Leasing Company (STLC) (where the Ministry of Transportation of Russia exercises shareholders rights), AO Corporation MIT (where GC Roscosmos exercises shareholders rights), PAO NMTP and AO SIA (with a government's ownership interest of less than 50%) procured that these issues were addressed, like what STLC and MIT did with regard to approving LTDP frameworks.

completed the annual form of federal statistical surveys of “Data on labor productivity for companies with government’s ownership interest in the non-financial corporate sector”¹.

Less than half of the companies comprising a group of 252 JSCs not listed in the special list in which the federal government owned an aggregate interest of more than 50 percent were covered by most of these policies. Only 112 of them developed a package of labor productivity growth policies, 134 companies established metrics for labor productivity indicator and their labor productivity growth policies were embedded into LTDPs, 123 companies did the same for management KPIs, 98 companies amended their labor agreements (contracts) with sole executive directors (SEDs), 125 companies completed the annual form of the aforementioned federal statistical surveys. A difficult task was to reconcile labor productivity growth with HR policy: more than 40 percent of companies made respective changes in their labor contracts with SEDs.

More than 3/4 of the companies listed in the special list developed and adopted in-house regulatory documents: rules and regulations to increase investment and operational efficiency and cost-efficiency (43 JSCs), internal audit provisions (46 JSCs), quality management framework (45 JSCs), risk management framework (45 JSCs), the procedure for the development and implementation of innovation-led development programs (37 JSCs).

New standard documents regarding corporate governance standardization of companies with an interest owned by the federal government also included new methodological recommendations for comparing technology-led development levels and key performance measures of JSCs with government equity participation, government corporations, federally owned companies and FSUEs with development levels and performance measures of lead peer companies, that were approved by Protocol No. 2 dated September 19, 2017 at a meeting of the Interdepartmental Task Force for the Implementation of Innovative Development Priorities of the Presidium of President's Council on Economic Modernization and Innovative Development of Russia.

For the purposes of adoption of standards set forth by the recent Corporate Governance Code 2014 (CGC), Rosimushchestvo (in the capacity of shareholder) analyzed FY16 annual statements approved at 2017 annual general meetings of shareholders of 12 biggest federally owned companies in order to check on their compliance with the principles and recommendations set forth by the CGC. According to the analysis as well as information that Rosimushchestvo requested from federally owned companies, all the 12 JSCs reported in their annual statements about adoption of standards and principles set forth by the Code, and such information was presented (except PAO Gazprom) in the format prescribed by the Bank of Russia’s Recommendations.

By the summer’s end 2017, the Code provisions were adopted 90 percent (compared with 77 percent a year earlier) based on an analysis of JSCs progress reports with regard to their Code Compliance Road Maps.

Best results were achieved in the following categories:

- company secretary (100 percent compared with 60 percent in 2016);
- shareholder rights and equitable treatment of shareholders while executing shareholder rights (93 percent compared with 86 percent in 2016);

¹ PAO State Transport Leasing Company (where the Ministry of Transportation of Russia exercises shareholders rights), AO Corporation MIT (where GC Roscosmos exercises shareholders rights), PAO NMTP and AO SIA (with a government’s ownership interest of less than 50%) procured that these measures were taken.

– executive compensation framework for members of the board of directors, executive boards and other critical senior managers of companies (92 percent compared with 83 percent in 2016).

Another four sections of the CGC (board of directors, risk management framework and internal control, disclosure of information, information policy, major corporate actions) were adopted more than 70 percent.

Four out of 12 companies achieved best results in adoption of the Code’s key sections: PAO Gazprom (100 percent), PAO Aeroflot (100 percent), PAO Sovkomflot (97 percent), PAO NK Transneft (95 percent). Apart from Aeroflot (a growth to 100 from 81 percent), PAO Transneft (a growth to 74 from 58 percent) and PAO RusHydro (a growth to 63 from 38 percent) showed a substantial improvement from 2015, according to Rosimushchestvo. What’s questionable is the degree of objectivity in assessing Gazprom, which was not in the lead group in 2015, and then (in 2016) Gazprom came out to share the lead with Aeroflot although its information on adoption of the standards and principles CGC was incompliant with the format prescribed by the Recommendations of the Bank of Russia. A minor setback of the dynamics of Sovkomflot (99 percent at 2015 year-end) is questionable too.¹

The dividend policy mechanism with regard to federally owned companies continued to improve.

As a reminder, this matter is generally regulated by Russian Government’s executive order No. 774-r dated May 29, 2006 (as further amended in late 2012), when a provision on dividends payout of not less than 25 percent of JSCs net profits (excluding revenues from financial investment revaluation) emerged, unless otherwise provided by legal acts of the Russian Government.

Faced with a tense fiscal environment in 2016, the Russian Government had to adopt a special dividend policy document. Under executive order No. 705-r dated April 18, 2016 regarding dividends payout for 2015, federal government authorities, first of all Rosimushchestvo, were guided by the executive order including a provision on dividends payout of 50 percent of net profits (in various versions).

In 2017, this standard was embodied in Russian Prime Minister’s Instruction No. DM-P13-2672 dated April 26, 2017 (hereinafter “the Instruction”) to provide decision making on dividends payout of not less than 50 percent of JSCs annual profit calculated in compliance with the international financial reporting standards (hereinafter the IFRS) when shaping the shareholder’s position of the federal government towards dividends payout at JSCs with an interest owned by the federal government (including infrastructure companies, oil and gas companies and military-industrial companies).

In May 2017, a list of provisions regulating federal government authorities’ decisions on the amount of dividends in companies with government equity participation (including a minimum threshold of 25 percent of JSCs net profits) under executive order No. 774-r of 2006 was extended to include a provision requiring the amount of dividends to be determined on the basis of net profits reported in financial statements, including IFRS-based consolidated statements, as long as JSCs are obliged to make such statements pursuant to the law. Where a specified amount is higher than net profits reported in JSCs financial account statements, dividends must be paid out of retained earnings.

Federal budget revenues administered by Rosimushchestvo in the form of dividends on shares owned by the federal government, with due consideration for decisions made at 2016

¹ For more details see Section “Compliance with the Corporate Governance Code: Are There Any Improvements?”

annual general meetings of shareholders, totaled more than RUB 187.9 billion as of August 01, 2017, marking a substantial decline from previous year's amount (RUB 237.73 billion), nearly equal to the 2015 amount of RUB 188.8 billion. JSCs listed in the special list were estimated to make up 99 percent of total accrued dividends on shares owned by the Russian Federation, according to a forecast for federal budget revenues from 2016 dividends. As of 2017 year-end, Rosimushchestvo contributed approximately RUB 250.5 billion to the federal budget, of which RUB 243.5 billion came from 25 biggest companies listed in the special list, Head of Rosimushchestvo Dmitry Pristanskov said in an interview.¹

Thirteen top dividend payers that paid more than RUB 1 billion worth of dividends to the federal budget were PAO Gazprom, PAO Transneft, AK ALROSA (PAO), PAO RusHydro, PAO Aeroflot, VTB Bank (PAO), AO Agency for Housing Mortgage Lending, PAO Rostelecom, PAO Sovkomflot, OAO Russian Railways, AO Zarubezhneft, PAO NCSP Group (NCSP), PAO Rosseti Federal Grid Company, of which 11 companies (excluding Gazprom and Rosseti Federal Grid Company) paid not less than 50 percent of their net profits.

Eight of the above JSCs accrued dividends on the IFRS basis, whereas five accrued dividends on the RAS (Russian accounting standards) basis, of which PAO Gazprom and PAO Transneft are noteworthy because their actual figures deviated respectively 40 and 26 percent from Rosimushchestvo's target based on resolutions of their annual general meeting of shareholders (hereinafter AGMS) held in pursuance of Russian Government's directives. Under a government's separate executive order regarding dividends payout in PAO Rosseti Federal Grid Company, the amount of dividends was calculated with consideration for a series of limits on the amount of company's net profits. In addition, the Russian Government decided to reduce the amount of 2016' dividends for certain JSCs operating in the military-industrial complex.

However, federal budget revenues from dividends deviated from the fiscal target primarily because of lack of RUB 156.5 billion worth of target revenues from AO ROSNEFTEGAZ following a biggest privatization deal late in 2016, when RUB 18.4 billion worth of dividends for the first 9 months of 2016 were transferred along with the proceeds worth RUB 692.4 billion from disposition of a 19.5 percent interest in PAO NK Transneft to the federal budget. Under Russian Government's executive order No. 390-r dated June 30, 2017 regarding calculation of dividends transferred to the federal budget, it was decided that AO ROSNEFTEGAZ would not pay 2016 dividends because of a loss incurred (under RAS) in FY16 as well as transferred interim dividends to the aggregate tune of RUB 24.61 billion.²

6.1.5. Improving regulatory environment for federal property organizations

Last year's changes in the regulatory and legal framework that governs economic agents related to federal property influenced almost all types of ownership and therefore turned out to be essential enough.

¹ The 2016 year-end report on the management of federally owned shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies, www.rosim.ru, February 28, 2018.

² The 2016 year-end report on the management of federally owned shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies.

Unitary enterprises

The July 2017 (No. 267-FZ) amendments to the Act 2002 in force (No. 161-FZ) introduced a concept of federal unitary enterprise of strategic importance for the military-industrial complex and the national security that covers:

- federal state unitary enterprises (FSUEs) and federal treasury enterprises (FTEs) listed in the list of strategically important companies approved by the President of Russia under the Privatization Act 2001;
- FSUEs and FTEs listed in the list of strategically important companies and organizations approved by the Russian Government under the Bankruptcy Act 2002;
- FSUEs and FTEs designated by a special decision of the Russian President or the Russian Government.

The category of enterprises, including shareholding companies that come under their direct and indirect control, is subject to *restrictions on financial operations* (pursuant to new Article 24.1 of Federal Act No. 161-FZ).

The aforementioned corporate entities may open accounts, covered (deposited) letters of credit with credit institutions, enter into bank account contracts/agreements, bank deposit contracts/agreements with credit institutions, acquire their securities, provided that the Russian ruble is the currency of the contract (a security denominated in Russian rubles), only if a credit institution is listed in the Bank of Russia's monthly list published on its official website¹ and meets one of the two requirements:²

- credit institution's equity is not less than the amount established by the Russian Government as agreed upon with the Bank of Russia and the credit institution meets extra requirements set by the Russian Government³, including requirements for acquisition of securities of credit institutions and established investment limits according to Russian credit institution's amount of equity (capital) and/or a credit rating under the national rating scale for the Russian Federation;
- a credit institution is directly or indirectly controlled by the Bank of Russia or the Russian Federation, given that the Russian Government is entitled to set extra requirements for operations (deals/transactions).

Similar regulations are established for the aforementioned financial operations involving foreign currencies, including denomination of securities.

Although foreign banks can be involved, the Russian Government is entitled to establish a foreign bank requirement by which specified unitary enterprises and shareholding companies must within a prescribed period of time terminate bank account contracts/agreements and bank

¹ Specifying information on (1) the amount of equity (capital), contingent upon credit institution's consent to the Bank of Russia to disclose the specified information and (2) that a credit institution is covered by mandatory insurance of physical person deposits with Russian banks.

² Except financial operations with Vnesheconombank.

In addition, the Russian Government was authorized to identify credit institutions that fail to meet the established requirements without including such credit institutions in the list published by the Bank of Russia. However, where foreign-based restrictive policies are in force against such credit institution or its control or key stakeholders, the credit institution must be included in list of the Bank of Russia.

³ In addition, the Russian government established a requirement for a credit rating level awarded for a Russian credit institution by credit rating agency/agencies covered by the Bank of Russia's register of credit rating agencies, on the basis of Russia's national ranking scale, employing a methodology that meets, as confirmed by the Bank of Russia, the requirements set forth by the Act 2015 governing credit rating agencies in the Russian Federation.

deposit contracts/agreements with foreign banks that have failed to meet the existing requirements.

A federal executive authority in charge of developing the national policy and banking regulatory framework shall, at least once in three months from the effective date of Russian Government's requirements, publish on its official website a list of foreign banks that meet the established requirements and specify the date of publication.

Strategically important federal unitary enterprises and shareholding companies that come under their direct and indirect control must:

– notify, in the manner prescribed by the Russian Government, a federal executive authority (the Federal Financial Monitoring Service) authorized to counteracting legalization (laundering) of ill-gotten proceeds and terrorist financing of opening/closure of accounts, change of accounts' details, covered (deposited) letters of credit with foreign banks, conclusion/termination of bank account contracts/agreements, bank deposit contracts/agreements with foreign banks and changes therein, acquisition/disposal of securities of foreign banks;

– terminate bank account contracts/agreements and bank deposit contracts/agreements with credit institutions that have failed to meet the foregoing requirements and have been taken off the list published by the Bank of Russia, within 180 days from the date of publication of the respective list of credit institutions on its official website.¹

Since the date of credit institution has been taken off the list, the effective period of bank deposit contracts/agreements, agreements on opening covered (deposited) letters of credit concluded between strategically important federal unitary enterprises as well as shareholding companies that come under their direct or indirect control and such a credit institution may not be extended and the bank account opened therewith under a bank account contract/agreement or a bank deposit contract/agreement may not be credited, except for the interest on the bank account contract/agreement or the bank deposit contract/agreement.

All these changes in the Unitary Enterprises Act are an integral part of amendments to the Act 2001 'Counteracting Legalization (Laundering) of Ill-Gotten Proceeds and Terrorist Financing' (No. 115-FZ) which established restrictions on financial operations of shareholding companies that are of strategic importance for the military-industrial complex and the national security of the Russian Federation² as well as shareholding companies that are under their direct and indirect control. The list is now extended to include federal unitary enterprises, federally owned corporations, federally owned companies and public not-for-profit companies.³ At the same time, the fact that credit institutions covered by foreign restrictive policies are mentioned among the federal government's prerogatives towards identifying credit institutions that have

¹ The Russian Government can reschedule the date of termination of a bank deposit agreement.

² Under a special Act 2014 (No. 213-FZ), these are shareholding companies listed in: (1) the list of strategically important shareholding companies approved by the Russian President under the Privatization Act 2001 (excluding credit institutions), (2) the list of JSCs in which the shareholder's position of the government is determined at government level (excluding credit institutions), (3) shareholding companies that are of strategic importance for the national defense and the national security within the meaning of the Act 2008 (No. 57-FZ) as well as, since summer 2017, (4) other economic agents with a federally owned interest listed in the list approved by the Russian Government.

A Russian government's draft executive order on adoption of the list of shareholding companies covered by Article 1 of Act No. 213-FZ was under consideration in fall 2017.

³ Respective amendments to separate acts governing Vnesheconombank, Housing and Utility Reform Foundation, Rostec, Rosatom, Roscosmos and Avtodor were made in Articles of Act No. 267-FZ dated July 29, 2017.

failed to meet the established requirements points to linkage with the impact of recent sanctions imposed against Russian corporate entities.

New essential provisions regarding *operations involving immovable property* were introduced by Russian Government's executive order No. 739 dated December 3, 2004, which regulates federal executive authorities' powers to exercise ownership rights over FSUE's property.

Russian Government's executive order No. 528 dated May 5, 2017 established that Rosimushchestvo¹ shall approve deals involving enterprises' immovable property worth more than RUB 150 million (under the Valuation Act), except for deals related to leasehold of such property, pursuant to a decision of the Russian Government, the Prime Minister or Prime Minister Deputies (on behalf of the Prime Minister).

An enterprise shall submit proposals regarding deals involving immovable properties that belong to an enterprise by right of economic management, including its transfer under leasehold agreements that shall be subject to standard terms and conditions approved by the Ministry of Economic Development together with justifications thereof and required documents, to the federal executive authority which holds jurisdiction over the enterprise, for further submission to Rosimushchestvo.

To approve deals involving immovable properties that belong to an enterprise by right of economic management, including leasehold thereof, the foregoing agencies shall interact with each other via a federal property management interdepartmental web portal by way of posting electronic documents with enhanced encrypted and certified digital signature.

Rosimushchestvo shall consider proposals for such deals in the prescribed format and decide, not later than 15 working days from the date of publication on the web portal, to approve/deny a deal by way of notifying thereof on the web portal in the prescribed manner, or, to the extent provided for thereby, shall submit respective proposals to the Ministry of Economic Development for further submission thereof to the Russian Government, upon 5 days' notice to the federal executive authority. Should Rosimushchestvo fail, within 30 working days from the date of federal executive authority's publication thereof on the web portal, submit the respective proposal, the deal shall be deemed not to be approved (excluding deals to be approved on government level).

Enterprises subordinate to the Ministry of Defense of Russia, The Department for Presidential Affairs of the Russian Federation, The Federal Agency for Marine and River Transport (when securing properties situated within sea ports boundaries) shall submit proposals regarding the aforementioned deals together with justifications thereof and required documents to respective departments and agencies which make decisions, like Rosimushchestvo does, to approve/deny the deals or, to the extent provided for thereby, submit respective proposals and documents to the Russian Government.²

In addition, property sale/purchase deals shall be carried out through auction in the manner prescribed by the federal antimonopoly agency.³ At an auction, the offering price of the property

¹ Applicable to enterprises subordinate to The Ministry of Defense of Russia, The Department for Presidential Affairs of the Russian Federation, To the Federal Agency for Marine and River Transport (when securing properties situated within sea ports boundaries), as specified by departments.

² The Federal Agency for Marine and River Transport shall submit respective proposals and documents to the Ministry of Transport of Russia for approval with the Ministry of Economic Development of Russia and the Ministry of Finance of Russia and for further submission to the Russian government.

³ Today, there are existing Rules for tenders or auctions, leasehold agreements, gratuitous use agreements, fiduciary management agreements, other agreements that provide for transferring of ownership regarding federal

is determined by the enterprise on the basis of a property valuation report drawn up as prescribed by the Valuation Act.

A list of documents required for approval of deals involving immovable property that belongs to an enterprise by right of economic management, including leasehold thereof, shall be approved by a federal executive authority in charge of developing the national policy and regulatory framework in respect of property-related matters.¹

Therefore, long-standing significant measures were introduced to regulate unitary enterprise powers at federal level.

Prior to the above-described changes, deals involving immovable property were normally approved by Rosimushchestvo with consideration for proposals of the federal executive authority that held jurisdiction over an enterprise, unless otherwise established by other statutory acts adopted under federal laws and regulations.

The new procedure for interaction on the subject matter between various government authorities was elaborated by setting a quantitative criterion (RUB 150 million), when the issue must be considered at government level, as is the case with approval by federal executive authorities (with consideration for the rationale of Rosimushchestvo's position) of deals involving disposition of a stake (ownership interest) in the charter (pooled) capital of shareholding companies or partnerships, enterprise's equity share, approval of decision of enterprise's participation in business and not-for-profit organizations, conclusion of a simple partnership agreement, as well as (exclusively for FSUEs covered by the privatization program) approval of major deals, deals involving loans, sureties, bank guarantees, other encumbrances, assignment of claims, assignment of debt, fundraising.

The introduction of auction procedure for disposition of unitary enterprise's property narrows the gap between the process of transfer of ownership thereof with the privatization mechanism, thus inevitably reducing managers' opportunistic behavior and possible malpractices.

Joint-stock companies

Russian Government's executive order No. 851 dated July 19, 2017 introduced major amendments to **the Provision on the management of federally owned shares in joint-stock companies and the Russian Federation's golden share (participation in corporate governance) in joint-stock companies** (hereinafter the Provision) adopted by Russian Government's executive order No. 738 dated December 3, 2004, and **Russian Government's executive order No. 1214 dated December 31, 2010 "Enhancing the governance of publicly traded companies with an interest owned by the federal government, and federal state unitary enterprises"** (hereinafter the Executive Order).

The Provision introduced the following changes.

First, changes in classification of JSCs and the chain of command between various government authorities which shareholder rights are applied to.

A separate group was created to include JSCs listed in the list of strategically important companies adopted by Russian President's executive order 2004 under the Privatization Act,

and municipal property, as approved by executive order No. 67 dated February 10, 2010 of the Federal Antimonopoly Service of the Russian Federation.

¹ Today, there is existing a List of documents an FSUE must submit to be eligible to make deals specified by Russian Government's executive order No. 333 dated June 06, 2003, adopted by executive order No. 3142-r dated July 15, 2003 of the Federal Agency for State Property Management of Russia. At the same time, Russian government's executive order No. 333 dated June 06, 2003 ceased to be in force.

where Rosimushchestvo exercises shareholder rights on the basis of proposals of a federal ministry or federal executive authority authorized to manage federal property under the supervision of the President of Russia or the Russian Government.

Another group was created to include JSCs listed in the special list, in which Rosimushchestvo exercises shareholder rights as agreed upon with a federal ministry (agency). The list was further elaborated. Russian Government's executive order dated August 30, 2017 approved lists of JSCs in which Rosimushchestvo exercises shareholder rights on the federal government's behalf as agreed upon with the Ministry of Industry and Trade (11 JSCs), the Ministry of Energy (10 JSCs), the Ministry of Finance (7 JSCs), the Ministry of Transportation of Russia (6 JSCs), The Ministry of Agriculture of Russia (5 JSCs), The Ministry of Economic Development (3 JSCs), The Ministry of Communications and Mass Media of Russia (2 JSCs), Ministry of Natural Resources (1 JSC), The Ministry of Construction, Housing and Utilities (1 JSC), The Federal State Reserve Agency (1 JSC), The Chief Directorate of Special Programs of the President of the Russian Federation (CDSP) (1 JSC). There were a total of 48 companies, many of which were on the list of strategically important companies.

Now, there is an express reference to the that Rosimushchestvo can on its own discretion exercise shareholder rights regarding the rest of JSCs.

Second, new regulations governing selection of candidates for election as individual (collegiate) executive body (hereinafter I(C)EB) in boards of directors (supervisory boards) and audit committees of JSCs with an interest owned by the federal government can be considered as a standalone matter within the context of amendments to the Provision.

The Ministry of Economic Development jointly with Rosimushchestvo should develop and approve selection criteria for election of candidates for I(C)EB, members of boards of directors (supervisory boards) and audit committees of JSCs, excluding FSUEs established as a result of privatization that operate under the jurisdiction of the Ministry of Defense of Russia and subordinate to the Facilities and Property Management Office under the President of the Russian Federation.

Organizations, including public organizations, associations (unions), autonomous not-for-profit organizations whose activities are related to association of professional (independent) directors, are entitled to submit to Rosimushchestvo their proposals for nomination of candidates that meet the criteria set by the Ministry of Economic Development. The same holds true for natural persons who can submit their applications exclusively via the federal property management interdepartmental web portal.

Candidates nomination proposals submitted by a federal ministry (agency), organizations, and applications of natural persons shall be considered at meetings of a Rosimushchestvo-led committee for selection of candidates for election as members of governing and supervisory boards in question.¹ Based on decisions of the committee, Rosimushchestvo shall determine the shareholder's position of the federal government regarding nomination of candidates for election for I(C)EB, members of boards of directors (supervisory boards) and audit committees.

Another point to note in this respect is substantial alleviation, in January 2017, of restrictions regarding a person nominated by the Russian Federation (as shareholder) for election as independent director in board of directors, who must not be for recent 12 years a member of the board of directors (supervisory board) of a shareholding company where election is to take place (in lieu of previous five-year requirement).

¹ The committee's composition and operating procedures shall be approved by Rosimushchestvo as agreed upon with the Ministry of Economic Development of Russia.

Third, the Provision underwent changes regarding the preparation of government's position as shareholder, terms for submission of federal authorities' proposals to Rosimushchestvo and a procedure for their interaction.

A federal ministry (authority) shall submit its proposals to Rosimushchestvo regarding matters on the agenda of annual general meeting of shareholders and for nomination of candidates for election as members of corporate governing boards at the meeting (excluding an individual (collegiate) executive body (I(C)EB) whose characteristics are described below), audit committees¹ regarding joint-stock companies:

- listed in the special list, till November 1st of the year preceding the year of annual general meeting of shareholders (previously, till November 15th);

- listed in the list of strategic companies in which the federal government owns an interest of less than 100 percent of the voting stock, till December 1st of the year preceding the year of annual general meeting of shareholders;

- all JSCs where the federal government holds 100 percent of the voting stock, excluding JSCs listed in the special list, till March 1st of the year of annual general meeting of shareholders (previously, for all JSCs, except till December 1st for JSCs listed in the special list).

The following is the procedure a federal ministry (agency) must follow for submitting to Rosimushchestvo proposals regarding candidates for election for I(C)EB in JSCs listed in the special and strategic lists:

- with regard to JSCs where the federal government holds 100 percent of the voting stock, not later than the earliest of the following: 60 days prior to the termination of I(C)EB office or 60 days prior to the date of general meeting of shareholders at which matters regarding the formation of I(C)EB are to be decided;

- with regard to the rest of JSCs, not later than the earliest of the following: 120 days prior to the termination of I(C)EB office or 120 days prior to the date of general meeting of shareholders at which matters regarding the formation of I(C)EB are to be decided.

A federal ministry (agency) shall carry out measures for preliminary selection of candidates for election for I(C)EB in JSCs listed in the strategic list under the criteria adopted by the Ministry of Economic Development by publishing respective notices on the federal ministry's (agency's) official website as well as on the federal property management interdepartmental web portal. A notice on preliminary selection of candidates shall be posted within 15 days from the date of publishing.

Proposals of a federal ministry (agency) regarding voting on matters on the agenda of general meeting of shareholders and appointment of a representative for voting at the meeting shall be submitted to Rosimushchestvo within 3 days following the receipt of notice of general meeting of shareholders, but within:

- 20 days prior to the date of general meeting of shareholders at JSCs listed in the special list;

- 15 days prior to the date of general meeting of shareholders at JSCs listed in the list of strategic companies.²

¹ Previously, there were exceptions regarding nomination of candidates for election for I(C)EB in list of matters that underpinned federal ministry's (agency's) proposals to Rosimushchestvo, and the counting committee was mentioned together with the audit committee.

² Previously, 15 days for all JSCs, except 20 days for JSCs listed in the special list.

Where a matter of JSCs reorganization is put on the agenda of special general meeting of shareholders, the terms shall be:

- 40 days for JSCs listed in the special list (previously, 25 days);
- 30 days for JSCs listed in the list of strategic companies (previously, for all JSCs, except 20 days for JSCs listed in the special list).

In the event of disagreement between the federal ministry (agency) and Rosimushchestvo, its head and deputy head shall procure that a consensus meeting is held regarding:

- voting on matters on the agenda of meeting of board of directors (supervisory board) of JSCs listed in the special and strategic lists, not later than 10 days from the date of meeting (the term shall be 15 days if a matter on election of individual (collegiate) executive body is put on the agenda of meeting of board of directors (supervisory board)) (a new provision);

- a call for special general meeting of shareholders of JSCs listed in the special and strategic lists, not later than 15 days prior to the date of call for the meeting (the term shall be 25 days if the matter of election of members of the board of directors is put on the agenda of general meeting of shareholders) (previously, 25 days for all JSCs);

- voting on matters on the agenda of general meeting of shareholders of JSCs listed in the special and strategic lists, not later than 15 days prior to the date of meeting (previously, 15 days for all JSCs).

The requirement that a consensus meeting be held to put proposals for nomination of candidates for election as members of governing boards, audit and ballot committees of JSCs and other matters on the agenda of annual general meeting of shareholders not later than till December 10th of the year preceding the year of annual general meeting of shareholders, till November 25th of the year preceding the year of annual general meeting of shareholders at JSCs listed in the special list (in the event of special meetings of shareholders, not later than 15 days prior to the expiration of the time limit for the *submission thereof* to JSCs) was taken off the Provision.

In the event the consensus meeting fails to lead to an agreement, Rosimushchestvo shall, not later than the date following the date of consensus meeting, present required documents containing a discrepancy list including substantiated position of the parties and proposals of the federal ministry's (agency's) to the Ministry of Economic Development.

In this case, the Ministry of Economic Development shall prepare proposals on the shareholder's position of the federal government with regard to JSCs listed in the special and strategic lists that are to be submitted to the Russian Government:

- on its own discretion in the manner prescribed for determination of shareholder's position of the Russian Federation with regard to JSCs listed in the special list (Paragraph 12 of the Provision);

- as agreed upon with a federal ministry (agency) in respect to proposals to call for special general meeting of shareholders for voting on matters on the agenda of general meeting of shareholders, on matters on the agenda of general meeting of shareholders of JSCs listed in the special list where the federal government holds 100 percent of the voting stock (Paragraphs 13–15 of the Provision).

Fourth, changes also covered the corporate governance toolkit.

It was explicitly established that requirements to the form and the subject-matter of an agreement with a professional trustee shall be approved by the Ministry of Economic Development.¹

Rosimushchestvo shall issue directives for government representatives in boards of directors:

- as agreed upon with a federal ministry or federal agency with regard to JSCs listed in the special list;
- based on the proposals of a federal ministry (agency) with regard to JSCs on the strategic list, excluding those listed in the special list;
- on its own discretion with regard to the rest of JSCs (previously, a federal agency issued directives for government representatives in all JSCs, excluding JSCs that were listed in the special list, on the basis of federal authority's (agency's) proposals.

The **Executive Order** introduced the following essential changes in the functionality of duties of governing boards of joint-stock companies (JSCs) with government equity participation.

Representatives of the interests of the Russian Federation in JSCs, excluding JSCs established as a result of privatization of FSUEs, under the jurisdiction of the Ministry of Defense of Russia and subordinate to the Facilities and Property Management Office under the President of the Russian Federation shall perform monitoring to procure that the above joint-stock companies shall publish information on the web portal regarding:

- the compliance with directives issued by the Russian Government and by Rosimushchestvo in pursuance of executive orders of the Russian President, the Russian Government;
- subsidiaries where more than 50 percent of equity is owned by JSCs in which the federal government owns an interest of more than 50 percent.

Recommendations regarding the contents and the publishing of such information on the web portal shall be approved by Rosimushchestvo which uses the web portal for interacting with:

- natural persons who submit their applications for election for I(C)EB in boards of directors (supervisory boards) and audit committees of shareholding companies;
- organizations including non-government organizations, associations (unions), autonomous not-for-profit organizations whose activities are related to association of professional (independent) directors;
- JSCs, excluding FSUEs established as a result of privatization, that are under the jurisdiction of the Ministry of Defense of Russia and subordinate to the Facilities and Property Management Office under the President of the Russian Federation;
- subsidiaries where more than 50 percent of equity is owned by JSCs in which the federal government owns an interest of more than 50 percent.

With regard to JSCs listed in the special and strategic lists, federal government executive authorities shall:

¹ For JSCs established as a result of privatization of FSUEs under the jurisdiction of the Ministry of Defense of Russia and subordinate to the Department for Presidential Affairs of the Russian Federation, specified by agencies. There was existing a standard contract on representation of interests of the federal government in corporate governing boards of shareholding companies (business partnerships) in which an interest (stake, share) is owned by the federal government, and a procedure for conclusion and registration of such contracts adopted by Russian Government's executive order No. 625 dated May 21, 1996. However, a legal limbo was created after the document was declared to be no longer in force in November 2014.

- approve, within 10 days from the date of receipt of respective documents from JSCs, corporate development strategies and long-term development programs as well as key performance indicators for corporate governing boards;
- monitor via the web portal business and financial operations, including key goals and objectives of corporate development strategies and long-term development programs, the compliance of the individual (collegiate) executive body with decisions of boards of directors (supervisory boards) adopted in pursuance of executive orders of the Russian President, the Russian Government and the Russian Federation as shareholder represented by Rosimushchestvo, the compliance of representatives of the Russian Federation elected according to proposals of a respective federal executive authority with shareholder's directives;
- submit proposals to Rosimushchestvo on matters for the agenda of general meetings of shareholders (meetings of boards of directors (supervisory boards) JSCs) with a view to enhancing the performance of JSCs;
- make sure that the foregoing JSCs publish information on the web portal;
- notify Rosimushchestvo, within 10 days from the date of detection, of lack of information on the web portal that relates to the above obligations of representatives of the Russian Federation to comply with directives of the Russian Government and Rosimushchestvo and subsidiaries with more than half of the equity owned by JSCs in which the federal government owns a majority interest of more than 50 percent.

Therefore a new scheme was launched to provide interaction between various government authorities regarding the governance of JSCs in which the federal government owns an interest. Rosimushchestvo's powers were somehow expanded. An individual (collegiate) executive body of corporate governing boards was for the first time identified, the rights of the professional community and individuals to nominate candidates as members of governing and supervisory boards of such companies were secured. Matters such as selection-criteria based formalization of requirements to government representatives in corporate governing boards and regulation for a body (committee) that deals with the matters were brought to a higher level (involving the Ministry of Economic Development).

The old scheme included selection criteria for independent directors, representatives of the federal government's interests and independent experts in governing and supervisory boards of JSCs with federal equity participation approved by minutes No. 448 dated August 25, 2014 at a kick-off meeting of the Committee for selection of professional directors and independent experts in governing and supervisory boards of JSCs including those listed in the special list, and by minutes No. 492 of a meeting held on September 24, 2014 between the former head of Rosimushchestvo and representatives of lead nongovernmental/professional organizations. The Committee for selection of professional directors and independent experts acting pursuant to Rosimushchestvo's executive order No. 233 dated June 27, 2014 employed the criteria for decision-making on the expediency of engaging non-civil servants in governing and supervisory boards of JSCs.

In 2017, Rosimushchestvo prepared draft selection criteria for candidates for election as members of boards of directors (supervisory boards) and audit committees of JSCs and draft selection criteria for candidates for election in individual executive bodies (SEDs) of JSCs. The foregoing criteria are designed for selecting professional directors and independent experts as candidates for election as members of boards of directors (supervisory boards), audit committees of JSCs not listed in the special list, candidates for election as SEDs of JSCs, as well as personnel of management organization aspiring to enter into an agreement on delegation of powers to SEDs. Criteria that were first submitted to the Ministry of Economic Development

and then discussed and refined for adoption by a Ministry's executive order upon completion of all conciliation procedures.

There is a document that stands apart from the rest – **Russian Government's executive order No. 894-r dated May 10, 2017** – which approved methodological recommendations *for identification and disposition of non-core assets*.

The methodological recommendations intend to facilitate policies of identification and disposition of assets of government corporations, federally-owned companies, JSCs in which the federal government owns a majority interest of more than 50 percent, as well as their subsidiaries (hereinafter organization or shareholding company) that are not used for core business purposes set forth in their charter.

The document sets forth objectives and principles of disposition of non-core assets on the basis of vast set of definitions. The heart of the document is the definition of 'core assets' as assets owned by an organization (entity) and used for core business purposes or essential for the implementation of corporate long-term development program, growth strategy, or compliant with core-asset criteria set forth in the methodological recommendations. Accordingly, non-core assets are defined as assets that fail to meet the definition of 'core assets', including blocks of equity shares (stakes) owned by the organization (entity) in a business entity regardless of its core business, representing, together with blocks of equity shares (stakes) owned by subsidiaries, less than 50 percent of the charter capital.

To identify a core/non-core management accounting unit which is defined as separate asset of a body of assets that have, among other things, potential to generate cash inflows, it is recommended to make analysis of the use of an asset for core business purposes of an organization (shareholding company) or the effect of the asset on the achievement of goals and objectives of the organization (shareholding company) set forth by its corporate development strategy or long-term development program (LTDP) with consideration for the *criteria for core and non-core management accounting units* (Schedule 1).

The criteria are as follows: (1) location of an asset (immovable property) on the territory occupied by the organization (entity) that is used for core business purposes or as the only possible driveway (pass way) to the territory; (2) a management accounting unit generates more than 5 percent of earnings generated at previous financial year-end; (3) pertinence to socially significant facilities (out-patient clinic, airport, health resort, sports center, dormitory, canteen) where more than 50 percent of earnings come from services to the corporate personnel; (4) signed contracts or other obligations related to the use of management accounting that make up more than 1 percent of the earnings of an organization or shareholding company or more than RUB 1 billion; (5) a management accounting unit owns assets that constitute state or trade secrets, the disclosure of which will entail losses for the organization or shareholding company; (6) a management accounting unit has policies in place to prevent emergencies, to provide information, economic and financial security of the organization or shareholding company and its subsidiaries.

In the event a management accounting unit is used for core business purposes, as well as if a separate asset or a body of assets are not used for core business purposes but still influence the achievement of goals and objectives set forth by a corporate development strategy or LTDP, the management accounting unit shall be deemed to pertain to core assets.

It is otherwise recommended to identify core/non-core assets management accounting units by the following algorithm.

A degree of impact of the above six criteria on each particular management accounting unit is determined by picking 'Yes' or 'No' answer ('Yes' means a criterion does have impact or

‘No’ means it doesn’t). An analysis of degree of impact of the criteria on the management accounting unit gives answers to be compared with target answers to identify core assets. If the resulting answers are the same as the target answers, a respective indicator (in percentage terms) shall be assigned to each answer¹, which is ‘0’ when divergence is found. Indicators (in percentage terms) for each answer shall be summarized. Management accounting units are deemed to be core units if the resulting figure is 50 percent or higher, and non-core units is less than 50 percent.

Criteria for identifying core/non-core assets of management accounting units at an organization or shareholding company are more simple (Schedule 2): an asset (1) is essential to ensure a successful performance of management accounting units; (2) is unalienable asset (easement, or the asset constitutes a business secret or is necessary for the purposes of national interests, mobilization training, defense, security). If at least a single answer matches the target answer, the asset of the organization or shareholding company shall continue to be deemed to be a part of the management accounting unit. If neither of the answers matches the target answer, the asset shall be excluded from the core management accounting unit and ceased to be deemed to be a core asset under the criteria set forth by Schedule 1.

A management accounting unit identified as non-core management accounting unit shall be registered with a non-core assets registry. A non-core assets disposition program, a non-core assets registry and an asset disposition action plan shall be developed (updated) based on analysis of core/non-core assets identification, as well as on corporate non-core assets disposition policy selected by an organization (shareholding company), which shall be considered and adopted by the board of directors (supervisory board) of the organization (shareholding company) and afterwards published on the company’s profile on the federal property management interdepartmental web portal (hereinafter ‘the web portal’). The methodological recommendations shall contain requirements to the layout and contents of the above documents.

New non-core assets identified by the organization or shareholding company shall be, within two months of the identification date, registered with the non-core assets registry. The same period is set for updates to the assets disposition program.

Disposition (alienation) of non-core assets to third parties that are meant to be corporate entities and/or natural persons not affiliated with an organization (shareholding company) is recommended to perform through onerous civil transactions including purchase/sale agreements, investment agreements signed upon, including but not limited to, tender results, to the extent that such transactions allow the organization (shareholding company) to *acquire ownership of* an asset (assets) constituting a core asset (assets) for the organization or shareholding company.

Further, gratuitous deals, including gifting, are permitted, in which case gratuitous alienation of non-core asset to federal and municipal ownership is recommended subject to a separate decision of the board of directors (supervisory board) and written approval by a respective public-law entity.

It is recommended that disposition of non-core assets be in compliance with provisions governing tender agreements set forth by the Civil Code of the Russian Federation (Articles 447 and 448 thereof). Selection of a tender organizer to search for bidders and manage competitive disposition of an asset is to be based on lists of corporate entities for managing on the federal government’s behalf of disposition of privatized federal property and/or acting in the capacity

¹ Percentage for matching the target answer is set at 20% for the criteria (1) and (4) and 15% for the rest of criteria.

of seller (23) and for managing disposition of federal and municipal properties in electronic format (6) approved by Russian Government's executive orders No. 1874-r dated October 25, 2010 (last updated on July 14, 2017) and No. 2488-r dated December 04, 2015, respectively.

Methods and procedures for disposition of non-core assets shall be established by corporate documents of an organization (shareholding company) subject to approval by the board of directors (supervisory board) of the organization or shareholding company in conformity with the requirements set forth by Russia's laws and regulations.

Offering price or purchase price of a non-core asset is determined based on a independent valuator report prepared in compliance with the requirements set forth by laws and regulations of Russia and/or of a non-core asset's host country. A non-core asset can be sold at a price below the book value subject to a special decision of the board of directors (supervisory board) of the organization or shareholding company and a respective feasibility report.

Disposition of non-core asset located overseas is recommended to be based on data from the methodological recommendations in the manner prescribed by Russia's laws and regulations, international laws and regulations or laws and regulations of a non-core asset's host country.

In the event a non-core asset is located abroad, its offering price or purchase price shall be determined based on the report of a Russian or foreign independent valuator selected on a competitive basis. In the event valuator selection competitive procedures are declared void more than twice due to a lack of bids, the offering price or purchase price of non-core asset shall be determined by a decision of the board of directors (supervisory board) of a shareholding company as long as respective feasibility report is made.

It is recommended to place the internal control (audit) department subordinate to the board of directors (supervisory board) in charge of monitoring identification and disposition of non-core assets in an organization or shareholding company, which must at least once a year report to the board of directors on identification and disposition non-core assets in the organization or shareholding company.

Disclosure of non-core assets disposition information and efficient monitoring of the implementation of a corporate asset alienation program shall be provided through quarterly (by 8th date of the month following the financial quarter) publication of complete, updated and accurate information on non-core assets alienation on the web portal, including from subsidiaries, as well as presentation of information on disposition of non-core assets in corporate annual reports in the manner prescribed by Russian Government's executive order No. 1214 dated December 31, 2010. As a reminder, the document approves a tentative layout of annual reports of JSCs with federally owned interest, which was amended in November 2015 to include a separate provision to govern non-core assets disposition.

The methodological recommendations are supposed to be put into practice through endeavors of government authorities.

With regard to shareholding companies, and federal executive authorities providing legal regulation and/or supervision and coordination in business areas specified in Russia's laws and regulations governing shareholding companies listed in the list of strategically important JSCs by Russian President's executive order No. 1009 dated August 4, 2004 and in the lists of JSCs by Russian Government's executive order No. 91-r dated January 23, 2003, the Ministry of Economic Development jointly with Rosimushchestvo must perform via the web portal:

- quarterly monitoring of non-core assets disposition results;
- quarterly validation of completeness and correctness of information concerning non-core assets disposition published on the web portal by managers of shareholding companies.

Furthermore, the foregoing federal ministries and agencies must procure that labor contracts with managers of shareholding companies are amended to include provisions regarding personal liability for late publication on the web portal of information or publication of inaccurate information about non-core assets disposition.

With the aim of making quarterly analysis of shareholding companies and organizations compliance with their non-core asset disposition action plans and annual presentation of relevant information to the Russian Government, the Ministry of Economic Development established an interdepartmental committee to consider, among other things, facts when managers of shareholding companies fail to timely publish information or publish incorrect information about non-core assets disposition on the web portal, provided by Rosimushchestvo and federal executive authorities.

That's not the first time that this issue has recently been addressed. Back in 2014, Rosimushchestvo adopted a methodology for core/non-core assets identification which ceased to be in force after methodological guidelines for identification and disposition of non-core assets were adopted by Russian Government's instruction No. ISH-P13-4065 dated July 7, 2016.

Since their adoption in 2017 at government level, the aspect of property related matters has been brought to a higher level, involving various government authorities/agencies on a system-wide basis. Another, albeit negative, incentive for addressing the issue was announcement that the Ministry of Economic Development jointly with the Ministry of Finance and federal executive authorities were drafting laws and regulations restricting government aid to organizations (shareholding companies) that fail to develop, implement or duly implement non-core assets alienation programs, including subsidization of interest rate on new investment projects in priority civil sectors, government guarantees on loans and bonded loans as part of policies of sustainable economic development.

6.1.6. Fiscal effect of federal property policy

Unlike in the previous year, the 2017 dynamics of federal budget revenues that somehow related to federal property was heterogeneous. Irrespective of 2016 federal budget revenues from proceeds from disposition of Rosneft equity shares, there was an increase in revenues from the use of federal property (from renewable sources), whereas revenues from privatization and disposition of federal property (from non-renewable sources) plummeted.

Table 9 and 10 present data on revenues (excluding 2015–2017) set forth in the Federal Budget Execution Acts 2000–2014 that stemmed from the use of federal property and disposition of federal property regarding only a specific type of tangible assets.¹

¹ Outside the scope of analysis are federal budget revenues from mineral tax payments (including aquatic biological resources, revenues from the use of forest resources and mineral resources), compensation for agricultural production losses related to alienation of agricultural lands, as a result of financial operations (revenues from investment of budget funds (revenues on federal budget balances and revenues from investment of federal budget funds, including, since 2006, revenues from asset management of the Stabilization Fund of the Russian Federation (since 2009, revenues from asset management of the Reserve Fund and the National Wealth Fund), revenues from investment of proceeds accumulated through auctions of federally owned shares), interest on domestic loans funded out of the federal budget, interest on government loans (interest on Russian government loans paid by foreign governments and foreign corporate entities, money from corporate entities (enterprises and organizations), subjects of the Russian Federation, municipalities in payment of interest and guarantees on loans provided by foreign governments and international financial institutions to the Russian Federation), from the delivery of paid services or recovery of government costs, transfer of profits to the Central Bank of Russia, certain payments by public and municipal enterprises and organizations (patent fees/taxes and registration charges for official

According to formal data from budget execution reports, total revenues from renewable sources contracted 70 percent year on year in 2017. As a reminder, however, record values of 2016 were seen due to the effect of a sales deal of 19.5 percent interest in Rosneft, by which all the money was to be paid to the federal budget in the form of dividends from ROSNEFTEGAZ as Rosneft's parent company. Excluding the foregoing interest worth RUB 692,395 billion,¹ revenues from renewable sources increased more than 8 percent in 2017.

Table 9

**Federal budget revenues from use of federal property (renewable sources),
2000–2017, rubles in millions**

Year	Total	Dividends on shares (2000–2017) and revenues from other forms of equity participation (2005–2017)	Rental payments for federally owned land	Rental revenues from federal property	Revenues from transfers of part of after-tax profit and other mandatory payments of FSUEs	Revenues from operations of Vietsoinvest Joint Venture
2000	23244.5	5676.5	–	5880.7	–	11687.3 ^a
2001	29241.9	6478.0	3916.7 ^b	5015.7 ^b	209.6 ^d	13621.9
2002	36362.4	10402.3	3588.1	8073.2	910.0	13388.8
2003	41261.1	12395.8		10276.8 ^e	2387.6	16200.9
2004	50249.9	17228.2	908.1 ^f	12374.5 ^e	2539.6	17199.5
2005	56103.2	19291.9	1769.2 ^h	14521.2 ⁱ	2445.9	18075.0
2006	69173.4	25181.8	3508.0 ^h	16809.9 ⁱ	2556.0	21117.7
2007	80331.85	43542.7	4841.4 ^h	18195.2 ⁱ	3231.7	10520.85
2008	76266.7	53155.9	6042.8 ^h	14587.7 ⁱ	2480.3	–
2009	31849.6	10114.2	6470.5 ^h	13507.6 ⁱ	1757.3	–
2010	69728.8	45163.8	7451.7 ^h	12349.2 ^j	4764.1	–
2011	104304.0	79441.0	8210.5 ^h	11241.25 ^j	4637.85	773.4
2012	228964.5	212571.5	7660.7 ^k	3730.3 ^l	5002.0	–
2013	153826.25	134832.0	7739.7 ^k	4042.7 ^l + 1015.75 ^m	6196.1	–
2014	241170.6	220204.8	7838.7 ^k	3961.6 ^l + 1348.5 ^m	7817.0	–
2015	285371.1	259772.0	9032.3 ^k	5593.8 ^l + 1687.8 ^m	9285.2	–
2016	946723.35/ 254328.3 ⁿ	918969.1/ 226574.1 ⁿ	9412.4 ^k	5843.25 ^o + 3026.7 ^m	9471.9	–
2017	275170.35	251329.2	9825.1 ^k	5318.35 ^o + 2857.7 ^m	5840.0	–

registration of computer software, databanks and integrated circuit layouts and other revenues which up to and including 2004 were an integral part of payments from government organizations (apart from revenues from operations of the Vietsoinvest Joint Venture since 2001 and from transfer of a part of FSUEs profits since 2002)), revenues from exercise of product sharing agreements (PSA), revenues from disposal and sale of confiscated/seized and other property translated into government revenues (including properties transferred to the ownership of the federal government by way of inheritance or gift, or treasures), revenues from lotteries, other revenues from the use of federally owned properties and title (revenues from exercise of intellectual property rights (R&D and technological research) of military, special and double purpose, revenues from disposal of rights to research and development deliverables owned by the Russian Federation, revenues from operation and use of motor road assets, motor road tolls on motor vehicles registered overseas, disposal of the Russian Federation exclusive intellectual property rights in geodesy and cartography, and other revenues from the use of property owned by the Russian Federation), as well as revenues from permitted types of activity of organizations credited to the federal budget, proceeds from disposition of precious metals and precious stones of public reserves.

Unlike in previous years, the federal budget execution acts 2015–2016 provided no aggregated data by code of types, subtypes of revenues, classification of public administration sector's operations that are attributed to budget revenues (data are presented only by classification code in terms of administrators of revenues). Therefore data from the annual Federal Budget Execution Reports dated as of January 1, 2016 and January 1, 2017, the monthly Federal Budget Execution Report dated as of January 1, 2018 were used.

¹ The purchase price of Rosneft shares, net of interim dividends (RUB 18.4 billion) going to the federal budget, was used to ensure a correct comparison.

^a according to data from the Federal Agency for State Property Management of Russia, the revenues were not itemized separately in the Federal Budget Execution Act 2000, specifying the amount of payments of federally owned enterprises (RUB 9887.1 million) (excluding specific components);

^b the amount of rental (a) for farmlands and (б) for lands owned by cities, towns and settlements;

^c total rental revenues from properties allocated to (a) research organizations, (b) educational institutions, (c) healthcare institutions, (d) public museums, public institutions of arts and humanities, (e) archive institutions, (f) the Ministry of Defense of Russia, (g) organizations operating under the jurisdiction of the Ministry of Transportation of Russia, (h) organizations providing services to public academies of sciences and (i) other rental revenues from properties owned by the federal government;

^d according to data from the Federal Agency for State Property Management of Russia, the revenues were not itemized separately in the Federal Budget Execution Act 2001, the value was equal to the value of other revenues from payments of public and municipal organizations;

^e total rental revenues from properties, owned by the federal government (land rental was not itemized separately);

^f the amount of rental (a) for lands owned by cities, towns and settlements and (b) for federally owned lands after the demarcation of federal ownership of land;

^g total rental revenues from properties allocated to (a) research organizations, (b) educational institutions, (c) healthcare institutions, (d) public institutions of arts and humanities, (e) public archive institutions, (f) federal postal service branches of The Ministry of Communications and Informatization of Russia, (g) organizations providing services to public academies of sciences and (h) other rental revenues from properties owned by the federal government;

^h rental after the demarcation of federal ownership of land and proceeds from disposition of rights to enter into federally owned land leasehold contracts (excluding land parcels of federal autonomous institutions (2008–2011) and federally funded (2011) institutions);

ⁱ rental revenues from properties under the operational management of federal government authorities and institutions established by federal government authorities and under the economic jurisdiction of FSUEs: placed under the operational management of public (a) research institutions, (b) organizations providing scientific services to the Russian Academy of Sciences and to sector-specific academies of sciences, (c) educational institutions, (d) healthcare institutions, (e) federal postal service branches of the Federal Communications Agency, (f) public institutions of arts and humanities, (g) public archive institutions and (h) other rental revenues from properties under the operational management of federal government authorities and institutions established by federal government authorities and under the economic jurisdiction of FSUEs¹ (for 2006–2009, excluding revenues from permitted types of activity and overseas revenues from the use of federally owned properties located outside the territory of the Russian Federation that were not itemized separately at all in previous years²);

^j rental revenues from properties under the operational management of federal government authorities and institutions established by federal government authorities (excluding autonomous and federally funded institutions): placed under the operational management of public (a) research institutions, (b) organizations providing scientific services to the Russian Academy of Sciences and to sector-specific academies of sciences, (c) educational institutions, (d) healthcare institutions, (e) public institutions of arts and humanities, (f) public archive institutions, (g) under the operational management of the Ministry of Defense of Russia and its subordinated agencies (2010), (h) owned by the federal government and in the possession of the Department for Presidential Affairs of the Russian Federation (2010) and (i) other rental revenues from properties under the operational management of federal government authorities and institutions established by federal government authorities (excluding revenues from permitted types of activity and overseas revenues from the use of federally owned properties located outside the territory of the Russian Federation);

^k rental after the demarcation of federal ownership of land proceeds from disposition of rights to enter into federally owned land leasehold contracts (excluding land parcels of federally funded and autonomous institutions), as well as (a) rental for land parcels located within the right-of-way lines of federal-aid general-purpose motor roads

¹ In 2008–2009, FSUEs were not mentioned as a source of rental revenues from properties under FSUEs' economic management, and leasehold of properties under economic management of federal government authorities and institutions established by federal government authorities did not cover properties of federally funded autonomous institutions.

² According to data from the Federal Agency for State Property Management of Russia, revenues from the use of federal properties located abroad (apart from revenues of the Russian party of the Vietsovpetro Joint Venture) totaled RUB 315 million in 1999 and RUB 440 million in 2000. Later, FSUE Overseas Property Management began to play a key part in using federally owned overseas immovable properties for commercial purposes.

owned by the federal government (2012–2016), (b) payments under easement agreements with regard to land parcels located within the right-of-way lines of federal-aid general-purpose motor roads for the purpose of construction (reconstruction), over-haul and operation of road service units, laying, reallocation, rebuilding, and operation of engineering networks, installation and operation of advertising structures (2012 and 2014–2016) and (c) payments under easement agreements with regard to land parcels owned by the federal government (2015–2016);

^l rental revenues from properties under the operational management of federal government authorities and institutions established by federal government authorities (excluding federally funded and autonomous institutions): placed under the operational management of public (a) research institutions, (b) educational institutions, (c) healthcare institutions, (d) public institutions of arts and humanities, (e) public archive institutions, (f) other rental revenues from properties under the operational management of federal treasury institutions, (g) federal government authorities, the Bank of Russia and governing bodies of non-federally funded funds of the Russian Federation, (h) federal treasury institutions (only 2015) (excluding overseas revenues from the use of federally owned properties located outside the territory of the Russian Federation);

^m rental revenues from properties that belong to the Treasury of the Russian Federation (excluding land parcels);

ⁿ exclusive of proceeds from disposition of equity shares in Rosneft (RUB 692.395 billion), net of interim dividend payment;

^o the data for 2016–2017 are generalized without sector-specific separation of institutions. The generalized classification includes only two categories of revenue according to the recipient of revenues from leasehold (federal government authorities, the Bank of Russia and governing bodies of non-federally funded funds of the Russian Federation and federal treasury institutions).

Source: Federal Budget Execution Acts 2000–2014, Federal Budget Execution Reports dated as of January 1, 2016, as of January 1, 2017 (annual reports), Federal Budget Execution Report dated as of January 1, 2018 (monthly report), www.roskazna.ru, own calculations.

Dividend inflow to the federal budget increased almost 11 percent, nearing in absolute terms (RUB 251.3 billion) the 2015 peak of RUB 259.8 billion. However, a part of the profits transferred from unitary enterprises plummeted more than 38 percent, surpassing annual decrease rates of 2008–2009. In absolute terms (RUB 5.8 billion), they came out to be below the 2013 level, less than federal budget revenues from land rental that increased nearly 4.4 percent to more than RUB 9.8 billion.¹

Total rental revenues from federally owned properties (nearly RUB 8.2 billion) were down nearly 8 percent. Rental revenues from properties that belong to the Treasury of the Russian Federation (excluding land parcels) (more than RUB 2.85 billion) contracted (by 5.6 percent) for the first time since they were reported separately in 2013 fiscal reports, while rental revenues from properties under the operational management of federal government authorities and institutions established by federal government authorities (excluding federally funded and autonomous institutions) (more than RUB 5.3 billion) fell even deeper (9 percent).

Like in the previous year, dividends represented most to the federal budget revenues from renewable sources (more than 91 percent compared to previous year's 89 percent, net of proceeds from disposition of equity shares in Rosneft). The percentage of land rentals stood at 3.6 percent, rentals for properties at 3.0 percent, profits transferred from FSUEs at 2.1 percent. The percentage of the two latter contracted from 2016.

Moving on to an analysis of federal budget revenues from privatization and disposition of federal property (*Table 10*), the point to note is that proceeds from disposition of the bulk of

¹ Like in the previous year, the amount of rental revenues from land includes revenues from payment for land parcels located within the right-of-way lines of federal-aid general-purpose motor roads owned by the federal government, payments under easement agreements with regard to land parcels located within the right-of-way lines of federal-aid general-purpose motor roads for the purpose of construction (reconstruction), over-haul and operation of road service units, laying, reallocation, rebuilding, and operation of engineering networks, installation and operation of advertising structures, as well as payments under easement agreements with regard to land parcels owned by the federal government, which emerged for the first time in 2015 fiscal reports.

the assets (shares, plus land parcels in 2003–2007¹) have since 1999 been attributed to sources of financing of the federal budget deficit.

In 2017, federal budget property-related revenues from non-renewable sources saw a 19-fold fall. Revenues from disposition of shares exhibited an even deeper (28.5-fold) fall to RUB 14.3 billion. These figures were less than those in 2010 but more than doubled the value (RUB 6.3 billion) seen in 2015.

Proceeds from disposition of land parcels contracted by more than 43 percent, down RUB 1.2 billion from previous year's RUB 2.1 billion, equaling to the value seen in 2013 and in the pre-crisis period of 2008–2009. Proceeds from disposition of various types of property posted the smallest decline (15 percent), hitting an all-time low in absolute terms (more than RUB 6.4 billion) since 2011.

Although proceeds from disposition of shares contributed most (nearly 2/3) to total revenues from non-renewable sources in 2017, their percentage came out to be much less than that (nearly 98 percent) registered a year earlier. Accordingly, the share of proceeds from disposition of other assets was up in the order of magnitude and higher. Disposition of various properties made up more than 29 percent of overall proceeds (1.8 percent in 2016) as disposition of land accounted for 5.5 percent (0.5 percent in 2016).

Table 10

**Federal budget revenues from property privatization and disposition
(non-renewable sources) in 2000–2017, rubles in millions**

Year	Total	Disposition of federally owned shares (2000–2017) and other forms of equity participation (2005–2017) ^a	Disposition of land parcels	Disposition of various types of property
2000	27167.8	26983.5	–	184.3 ^b
2001	10307.9	9583.9	119.6 ^c	217.5+ 386.5+0.4 (IAs) ^d
2002	10448.9	8255.9 ^e	1967.0 ^f	226.0 ^g
2003	94077.6	89758.6	3992.3 ^h	316.2+10.5 ⁱ
2004	70548.1	65726.9	3259.3 ^j	197.3+1364.6+0.04 (IAs) ^k
2005	41254.2	34987.6	5285.7 ^l	980.9 ^m
2006	24726.4	17567.9	5874.2 ⁿ	1284.3 ^o
2007	25429.4	19274.3	959.6 ^p	5195.5 ^p
2008	12395.0	6665.2+29.6	1202.0 ^q	4498.2+0.025 (IAs) ^r
2009	4544.1	1952.9	1152.5 ^q	1438.7 ^r
2010	18677.6	14914.4	1376.2 ^q	2387.0+0.039 (IAs) ^r
2011	136660.1	126207.5	2425.2 ^q	8027.4 ^r
2012	80978.7	43862.9	16443.8 ^q	20671.7+0.338 (IAs) ^r
2013	55288.6	41633.3	1212.75 ^q	12442.2+0.310 (IAs) ^r
2014	41155.35	29724.0	1912.6 ^q	9517.7+1.048 (IAs) ^r
2015	18604.1	6304.0	1634.55 ^q	10665.5+0.062 (IAs) ^r
2016	416470.5	406795.2	2112.7 ^q	7562.6+0.012 (IAs) ^r
2017	21915.1	14284.5	1199.6 ^q	6429.7+1.3 (IAs) ^r

^a attributed to sources of internal financing of the federal budget deficit, the amount of RUB 29.6 million in 2008 (according to data from the Federal Budget Execution Report dated as of January 1, 2009) is attributed to federal budget revenues but not available in the 2008 Federal Budget Execution Act;

^b revenues from privatization federally owned organizations that are deemed to constitute sources of internal financing of the federal budget deficit;

^c proceeds from disposition of land parcels and leasehold rights to land parcels owned by the federal government (land parcels underlying privatized enterprises were separated) that are deemed to constitute federal budget revenues;

^d the amount proceeds from (1) disposition of properties owned by the federal government that are deemed to constitute sources of internal financing of the federal budget deficit, (2) proceeds (a) from sales of living quarters, (b) from disposition of federally owned productive and nonproductive assets, means of transport, other equipment

¹ In 2003–2004, including disposition of leasehold rights.

and other tangible assets, as well as (3) proceeds from disposition of intangible assets (IAs) attributed to federal budget revenues;

^e including RUB 6 million from disposition of shares held/owned by subjects of the Russian Federation;

^f proceeds from disposition of land intangible assets, whose amount was not specified separately, that are deemed to constitute federal budget revenues;

^g proceeds from disposition of properties owned by the federal government (including RUB 1.5 million from disposition of properties owned by subjects of the Russian Federation) that are deemed to constitute sources of internal financing of the federal budget deficit;

^h includes proceeds: (1) from disposition of land parcels underlying immovable properties owned by the federal government prior to their alienation that are credited to the federal budget, (2) from disposition of other land parcels, as well as from disposition of the right to enter into rental agreements on these land parcels, (3) from disposition of land parcels after the demarcation of land ownership, as well as from disposition of the right to enter into rental agreements on these land parcels that are credited to the federal budget that are deemed to constitute sources of internal financing of the federal budget deficit;

ⁱ the amount (1) of proceeds from disposition of properties owned by the federal government that are deemed to constitute sources of internal financing of the federal budget deficit, and (2) proceeds from disposition of intangible assets attributed to federal budget revenues;

^j includes proceeds: (1) from disposition of land parcels prior to the demarcation of state ownership on land underlying immovable properties owned by the federal government prior to their alienation, that are credited to the federal budget, (2) from disposition of other land parcels, as well as from disposition of the right to enter into rental agreements on these land parcels, (3) from disposition of land parcels after the demarcation of land ownership, as well as from disposition of the right to enter into rental agreements on these land parcels that are credited to the federal budget that are deemed to constitute sources of internal financing of the federal budget deficit;

^k the amount of (1) proceeds from disposition of properties owned by the federal government that are deemed to constitute sources of internal financing of the federal budget deficit, (2) proceeds (a) from sales of living quarters, (b) from disposition of equipment, means of transport and other material assets that are credited to the federal budget, (c) from disposition of ship recycling products, (d) from disposition of properties owned by SUEs, institutions, and of military materials and equipment, (e) from disposition of products of recycling of military materials and equipment and ammunition, (3) proceeds from disposition of intangible assets (IAs) attributed to federal budget revenues;

^l includes proceeds: (1) from disposition of land parcels prior to the demarcation of state ownership on land underlying immovable properties owned by the federal government prior to their alienation, (2) from disposition of land parcels after the demarcation of land ownership that are credited to the federal budget, (3) from disposition of other land parcels owned by the federal government prior to the demarcation of state ownership on non-housing land (the latter update is only referred to 2006) that are deemed to constitute sources of financing of the federal budget deficit;

^m proceeds from disposition of tangible and intangible assets (net of federal budget revenues from ownership and disposition of seized/confiscated properties and other properties translated into federal government income), include proceeds (a) from sales of living quarters, (b) from disposal of FSUEs properties, (c) from disposal of properties under the management of federal institutions, (d) from disposition of military materials and equipment, (e) from disposition of products of recycling of military materials and equipment and ammunition, (f) from disposal of other properties owned by the federal government, (g) from disposition of intangible assets, that are deemed to constitute federal budget revenues;

ⁿ proceeds from disposition of tangible and intangible assets (excluding revenues in the form of a federal share of profit-making products in the course of *execution of* production sharing agreements (PSA) and federal budget revenues from disposal and disposition of escheat, seized/confiscated properties and other properties translated into federal government revenues), include proceeds (a) from sales of living quarters, (b) from disposal of FSUEs properties, (c) from disposal of properties under the management of federal institutions, (d) from disposal of military materials and equipment, (e) from disposition of products of recycling of military materials and equipment and ammunition, (f) revenues from disposal of other properties owned by the federal government that are deemed to constitute federal budget revenues;

^o proceeds from disposition of land parcels after the demarcation of federal ownership of land that are deemed to constitute sources of financing of the federal budget deficit;

^p proceeds from disposition of tangible and intangible assets (excluding revenues in the form of a federal share of profit-making products in the course of *execution of* production sharing agreements (PSA) and federal budget

revenues from disposal and disposition of escheat, seized/confiscated properties and other properties translated into federal government revenues, proceeds from disposition of sequestered lumber), include proceeds (a) from sales of living quarters, (b) from disposal of FSUEs properties, (c) from disposal of properties under the management of federal institutions, (d) from disposition of released movable and immovable military properties and other properties of federal executive authorities where military and equated to military service is stipulated, (e) disposition of military products available at federal executive authorities within the framework of military and technological cooperation, (f) revenues from disposal of other properties owned by the federal government that are deemed to constitute federal budget revenues;

^q proceeds from disposition of land parcels owned by the federal government (excluding land parcels of federal autonomous institutions and federally funded (2011–2012) institutions) that are deemed to constitute federal budget revenues, as well as, for 2015, plus payment for expanding the area of privately owned land parcels as a result of reallocation of such land parcels and land parcels owned by the federal government;

^r proceeds from disposition of tangible and intangible assets (excluding revenues in the form of a federal share of profit-making products in the course of *execution of* production sharing agreements (PSA) and federal budget proceeds from disposal and disposition of escheat, seized/confiscated properties and other properties translated into federal government revenues, proceeds from sales of sequestered lumber (2008–2011), proceeds from using material assets out of the federal reserve of special raw materials and fertile materials (with regard to proceeds from disposition, from granting for temporal use and from other use), as well as, for 2012–2017, proceeds from sales of lumber produced through measures of replacement, conservation and protection of forests while placing the federal government contract to perform the measures without selling forest planting for wood harvesting, as well as lumber produced by using forests of the federal forestry fund land, pursuant to Articles 43–46 of the Forestry Code of the Russian Federation, revenues from intervention sales out of the reserves of the agricultural intervention fund, raw materials and foodstuff products, from using tangible assets out of the federal reserve, from the engagement of imprisoned persons in paid labor (with regard to sales of finished products), from sales of products requiring special storage conditions)), include revenues: (a) from sales of living quarters, (b) from disposal of properties under the management of federal institutions (excluding autonomous and federally funded institutions (2011–2017), net of revenues from overseas missions' operations (2015–2017), (c) from disposition of released movable and immovable military properties and other properties of federal executive authorities where military and equated to military service is stipulated, (d) from disposition of products of recycling of military materials and equipment and ammunition, (e) from disposition of military products available at federal executive authorities within the framework of military and technological cooperation (2008 and 2010–2017), (f) from disposition of products of recycling of weapons and military materials and equipment as part of the federal program for Industrial Recycling of Weapons and Military Equipment (2005–2010), (g) proceeds from disposition of immovable properties of federally funded and autonomous institutions (2014–2017), (h) revenues from disposal of other properties owned by the federal government, as well as proceeds from disposition of intangible assets (IAs) that are deemed to constitute federal budget revenues.

Source: Federal Budget Execution Acts 2000–2014, Federal Budget Execution Reports dated as of January 1, 2016, as of January 1, 2017 (annual reports), Federal Budget Execution Report dated of January 1, 2018 (monthly report), www.roskazna.ru, own calculations.

Total amount of federal budget revenues from privatization (disposition) and from the use of federal property in 2017 (*Table 11*) was by 4.6 times less than the previous year's value. In absolute terms, the amount (RUB 297.1 billion) came out to be less than what it was in 2015.

Table 11

**Structure of federal property-related budget revenues from various sources,
2000–2017**

Year	Total revenues from privatization (sales) and from the use of federal property		Revenues from privatization and disposition of property (non-renewable sources)		Revenues from the use of federal property (renewable sources)	
	rubles in millions	as percentage of total	rubles in millions	as percentage of total	rubles in millions	as percentage of total
2000	50412.3	100.0	27167.8	53.9	23244.5	46.1
2001	39549.8	100.0	10307.9	26.1	29241.9	73.9
2002	46811.3	100.0	10448.9	22.3	36362.4	77.7
2003	135338.7	100.0	94077.6	69.5	41261.1	30.5
2004	120798.0	100.0	70548.1	58.4	50249.9	41.6

2005	97357.4	100.0	41254.2	42.4	56103.2	57.6
2006	93899.8	100.0	24726.4	26.3	69173.4	73.7
2007	105761.25	100.0	25429.4	24.0	80331.85	76.0
2008	88661.7	100.0	12395.0	14.0	76266.7	86.0
2009	36393.7	100.0	4544.1	12.5	31849.6	87.5
2010	88406.4	100.0	18677.6	21.1	69728.8	78.9
2011	240964.1	100.0	136660.1	56.7	104304.0	43.3
2012	309943.2/ 469243.2*	100.0	80978.7/ 240278.7*	26.1/ 51.2*	228964.5	73.9/ 48.8*
2013	209114.85	100.0	55288.6	26.4	153826.25	73.6
2014	282325.95	100.0	41155.35	14.6	241170.6	85.4
2015	303975.2	100.0	18604.1	6.1	285371.1	93.9
2016	1363193.85/ 670798.85**	100.0	416470.5	30.6/ 62.1**	946723.35/ 254328.35°	69.4/ 37.9**
2017	297085.45	100.0	21915.1	7.4	275170.35	92.6

* including central bank's proceeds from disposition of equity shares in Sberbank (RUB 159.3 billion), which possibly leads to an overestimated aggregate share of non-renewable sources because not all of the specified amount went to the federal budget, net of the book value and costs relating to disposition of equity shares. Therefore the share of renewable sources is probably somewhat undervalued;

** exclusive of proceeds from disposition of equity shares in Rosneft (RUB 692.395 billion) (net of interim dividend payment).

Source: Federal Budget Execution Acts 2000–2014, Federal Budget Execution Reports dated as of January 1, 2016, as of January 1, 2017 (annual reports), the Federal Budget Execution Report dated as of January 1, 2018 (monthly report), www.roskazna.ru, own calculations.

After a previous' year substantial change in the structure of overall revenues from privatization (sales) and from the use of federal property as a result of several sale deals involving shares of biggest companies (first of all, Rosneft), the ratio of non-renewable to renewable sources was back to its levels seen 2015.

The percentage of non-renewable sources in the structure of overall revenues from privatization (disposition) and from the use of federal property saw a 4-fold decline to 7.4 percent, whereas the percentage of revenues from the use of federal property was up from 69.4 to 92.6 percent in 2017. In absolute terms, this indicator ranked second after 2015 throughout the entire period since the early 2000s, while revenues from privatization and disposition of property were slightly more than half of the value seen in 2014 but above values seen in 2008–2010 and in 2015.

6.1.7. New version of the federally-funded program for federal property management: intermediate results and fulfillment prospects

Today's federal property policy is described by the Federally-Funded Program for Federal Property Management (hereinafter 'the Program') adopted by Russian Government's executive order No. 327 of April 15, 2014 in lieu of its counterpart that was in force over just 14 months.¹ Russian Government's executive order No. 381-12 dated 31 March 2017 introduced material updates and amendments to the 2014 Program.

Financing and indicators for performance

First and foremost, the federally-funded program has been extended till 2019, including the program's second stage (2016–2019). The Ministry of Economic Development continues to be the prime contractor of the Program as Rosimushchestvo is now a joint contractor regarding

¹ Adopted by Russian government executive order No. 191-r dated February 16, 2013.

For more details on the federal state program 2013 see Malginov G., Radygin A. Public sector and privatization // Russian Economy in 2012. Trends and Outlooks (Issue 34). M., IEP. 2013, pp. 468–475.

Sub-program 1 for ‘Enhancing the Efficiency of Federal Property Management and Privatization, similar to that of the Federal State Reserve Agency’ similar to the Sub-program for ‘Public Tangible Reserves Management’. The amount and percentage of federal allocations changed as well (*Table 12*).

2017–2019 will continue to see the previous year’s trend towards less funding compared with the original version of the Program: a decline of 15 percent in 2017 and 24 percent in 2018. The trend, not surprisingly, comes from budget constraints driven by troublesome conditions facing the Russian economy in recent years. Clearly, as contrasted with the 2013 program, the new version of the Program has no target indicators to achieve through allocation of extra resources.

Overall, federal budget appropriations for the Program will amount to RUB 165.8 billion in 7 years (2013–2019), adding about RUB 10.8 billion (or 7 percent) to that for the original 6-year version of the Program (2013–2018). There is, however, marginal increase (nearly RUB 712 million) through extension of the Program with regard to the Sub-program for ‘Enhancing the Efficiency of Federal Property Management and Privatization’ whose 2019 funding is somewhat 15 percent less than the average annual amount of the new version of the Program and 1/4 less than that of the original version, not to mention the Program 2013, in which allocations covered only the program itself. Like in the original version of the Program, the bulk of federal allocations cover the sub-program for ‘Public Tangible Reserves Management’. The Sub-Program for ‘Enhancing the Efficiency of Federal Property Management and Privatization’ accounts for less than 20 percent of the total financing in 2013–2019, with even less (nearly 18 percent) in annual terms for 2017–2019. What is noteworthy is that it’s all about target values rather than actual values of federal funding.

Table 12

Amount of federal allocations for Federally-Funded Program for Federal Property Management, 2013–2019 (rubles in millions)

Period	Federally-Funded Program 2013*		Federally-Funded Program 2014 (original version)		Federally-Funded Program 2014 (updated version 2017)	
	total	Including supplementary funding	total	including Sub-program for Enhancing Efficiency of Federal Property Management and Privatization	total	including Sub-program for Enhancing Efficiency of Federal Property Management and Privatization
2013	5474.3	5896.9	23629.8	5673.8	23287.2	5474.3
2014	5251.4	9666.6	22093.5	5436.1	22093.5	5436.1
2015	5275.1	9842.7	27537.6	5298.9	27938.9	5408.5
2016	5469.8	11180.5	25261.0	5138.9	24854.5	4465.8
2017	5775.8	8028.8	26903.6	5158.6	22971.3	4127.6
2018	6192.0	7869.2	29605.5	5531.4	22491.1	4046.0
2019	–	–	–	–	22172.6	3991.6
Total	33438.4	52484.8	155031.1	32237.7	165809.1	32949.8

* Exclusively for the Sub-program for ‘Enhancing the Efficiency of Federal Property Management and Privatization’. No data were published for the amount of federal allocations for the Sub-Program for ‘Public Tangible Reserves Management’.

Source: The Federally-Funded Program for Federal Property Management adopted by Russian Government’s executive order No. 191-r dated February 16, 2013; The Federally-Funded Program for Federal Property Management adopted on April 15, 2014 by Russian Government’s executive order No. 327 (the original version and the updated version dated March 31, 2017).

Goals and objectives of the new version of the Program are formulated in a more laconic way. Excluding the issue of managing federal tangible assets, there is a goal to enhance mechanisms of federal property management and privatization and an objective of increasing the efficiency and quality of management. Target indicators for the Program continue to be average rates of decrease in the number of organizations with federal government equity participation and federal treasury properties (in percentage terms), whereas the original version of the Program contained target indicators including the dynamics of technology-led development processes of federal property management.

In the new version of the Program, a reform of the federal property disposition framework is expected to be completed by 2019, and the dynamics of quantitative reduction of federal treasury properties are projected to increase 24 percent in 2019 from 3 percent in 2013.

In the original version of the Program, key projected outputs were just outlined rather than linked to specific terms and quantitative indicators: (1) to streamline the composition and structure of federal property at macro- and micro-level to create strong preconditions for economic growth, as well as lay economic groundwork for public not-for-profit institutions (from the perspective of achieving national objectives and interests); (2) to increase the efficiency of federal property management, including competitiveness and investment appeal of companies with an interest owned by the federal government, setting long- and short-term goals and objectives; (3) to restrict expansion of the public sector of economy by, including but not limited to, establishing and adhering to a framework of prohibitions and restrictions, pursuing industry-specific and other types of policies instead of direct government involvement in the economy, as well as adhering to principles of conformity, sustainability and guaranties of the long-term basis of announced goals and objectives.

Outputs for Sub-program 1 are formulated in a similar manner. It is noteworthy that the original and the new versions of the Program contain the foregoing three points (National policy priorities and goals including general national policy requirements to subjects of the Russian Federation) not as outputs but as effects that could be seen if the program target goals are achieved.

A new version of the data sheet for the Sub-program for ‘Enhancing the Efficiency of Federal Property Management and Privatization’ has a shorter, albeit different, description of *goals and objectives*.

The *goals* are (I) to streamline the composition and structure of federal property, (II) to increase the performance of federal property management and (III) to ensure efficient supervision, accounting and monitoring of the use of federal property.

The *objectives* are (1) to define the purpose, optimal composition and structure of federal property, (2) to increase the efficiency of federal property disposition and to streamline policies to commercialize federal properties, including privatization instruments, (3) to improve the efficiency and quality of corporate governance in companies with an interest owned by the federal government, management of federally owned properties including federally owned land, (4) to broaden methods of supervision and increase personal liability for management and use of federally owned properties, (5) to improve the efficiency of accounting and monitoring of the use of federal property.

A set of target indicators for the Sub-Program for ‘Enhancing the Efficiency of Federal Property Management and Privatization’ changed as well. The number of quantitative indicators decreased to 14 from 16. Like in the previous version of the Program, the streamlining of the composition and structure of federal property relies on indicators such as share of federally owned properties (by category) with defined target function (shareholding

companies with government equity participation, federal government agencies, federal treasury properties), decrease rates for the number of properties (in terms of YoY percentage change for FSUEs and JSCs, and in terms of percentage change from 2012 for non-commercialized federal treasury land parcels (excluding land parcels restricted for commercialization and de-commercialized land parcels), and other federal treasury properties (excluding those owned exclusively by the Russian Federation)). The only difference in this part was that the share of FSUEs with defined target function was taken off the set of indicators.

The set of indicators describing the effectiveness of federal property management underwent major changes. The aggregate indicator (in percentage terms) showing the compliance with target federal budget revenues from management and disposition of federal property, excluding revenues from privatization, was replaced with two indicators reflecting various aspects of the property management process.

The privatization efficiency must be measured as a percentage share of FY federal budget revenues of target federal budget revenues from disposition of equity shares and stakes in the charter capital of shareholding companies pursuant to a Russian Government's executive order to approve a forecast plan (program) for privatization for the ensuing year (excluding proceeds from disposition of equity shares in biggest joint-stock companies). It therefore is noteworthy that the new set has no indicator for quantity of disposed highly-sought big investment property assets through public offering (out of property assets intended for disposition this year pursuant to decisions of the Russian President and/or the Russian Government) (exchange transactions and strategic sales).

A share of federal budget revenue, measured as a percentage share of FY target revenue, from stakes in the charter (pooled) capital of business partnerships and entities, or from dividends on shares held/owned by the federal government (with consideration for Russian Government's dividend omission decisions) is selected to measure the efficiency of property use.

What stands apart is another new indicator reflecting the valuation/purchase price ratio for sold properties with ownership transferred to the federal government. Although there is no clear economic rationale for that, one can assume that this relates to the fact that Rosimushchestvo has recently been increasingly focusing on disposition of *escheat and confiscated* properties.

The new version of the Program also employs the indicator for a share of civil servants in governing and supervisory boards of joint-stock companies with an interest owned by the federal government, which represents the management toolkit for federally owned assets and is supplemented with a share of JSCs (listed in the special list adopted by Russian Government's executive order No. 91-r dated January 23, 2003¹, as well as other JSCs with a controlling interest owned by the federal government) whose long-term programs have indicators for labor productivity growth, creation and modernization of high-productive jobs.

The number of indicators describing supervision over federal property management and the status of technology-led development of management processes decreased. The new version of the Program has only two indicators from the previous version's set of indicators, namely a percentage share of registered federally owned properties of the total number of identified properties subject to registration (within current year), and a percentage share of digitized public services of total services rendered by Rosimushchestvo.

¹ Shareholder's position of the federal government on critical matters regarding these companies shall be determined at government level.

The new version of the Program has no indicators for a percentage share of shareholding companies with a government full ownership interest and federal organizations with government's ownership interest of less than 100 percent where the fiscal accounting and reporting/accounting system is fully integrated into the Federal State Information and Analytical System 'Unified State Property Management System' (hereinafter the FSIAS USPMS) in the total number of federal organizations, as well as a percentage share of legally significant electronic document flow compliant with existing laws and regulations between Rosimushchestvo, including its local branches, and federal government agencies of total document flow with federal government agencies.

The new version of the Program expects the sub-program 1 to:

- define by 2019 a target function for 100 percent of organizations in which the federal government owns an interest;
- ensure conformity of the composition of organizations in which the federal government owns an interest and whose property is owned by the federal government with objectives and strategic interests of the Russian Federation by 2019;
- ensure conformity of competitive and higher-quality corporate governance of companies with an interest owned by the federal government with international standards;
- ensure further decrease in the number of federal treasury properties of the Russian Federation (excluding land parcels) from 1 percent in 2013 to 12 percent in 2019;
- increase substantially the share of commercialized land parcels;
- broaden the system of public control over federal property management and disposition;
- ensure a complete accounting for all federally owned properties under a unified federal property accounting and management system;
- ensure achievement of targets for federal budget revenues from the use and disposition of federal property.

New Program's goals and objectives

In terms of defining national policy priorities and goals, the new version of the Program contains a new reference to the Federal Act on Strategic Planning in the Russian Federation (previous versions contained no references to specific federal acts) in addition to the reference to the Concept of Long-Term Socio-Economic Development of the Russian Federation Until 2020, adopted by Russian Government's executive order No. 1662-r dated November 17, 2008.

The new version contains a new definition of independent experts as persons not holding a public office or non-civil servants of Russia, who are elected as members of supervisory boards of joint-stock companies with an interest owned by the federal government. A similar definition was made with regard to civil service for professional directors elected as members of governing boards of JSCs with an interest owned by the federal government.

As shown above, the projected goals and principal outputs for federal property management are defined more clearly than those set forth in the original version of the Program.

The new version of the Program has no clearly defined target outputs like those set for 2018 in the previous version: to increase the proportion of federally owned companies' shares listed in the Russian securities market, and to double stepwise the number of such companies (increase the number of government-controlled publicly-traded companies (OAO) listed in the Russian securities market), non-existence of federal unitary enterprises owned by right of economic management, provision of federal state registration of federal property ownership under the unified accounting and management system. Investment appeal and publicity are not

mentioned with reference to international standards regarding increasing the quality of corporate governance of companies with an interest owned by the federal government.

Goals and objectives the Sub-Program for ‘Enhancing the Efficiency of Federal Property Management and Privatization’ underwent some kind of reformatting. The number of goals dropped from 5 to 3 and many objectives were reformulated.

Goal #1 (the new version of the Program, I) – to streamline the composition and structure of federally owned properties – appears to be bigger in terms of content volume than that in the original version of the Program (only definitions of property management targets). Therefore, the purpose, optimal composition and structure of federally owned properties are presented as an objective in the text (1), whereas objectives used to be bigger in number and less explicit (to check federal properties against objectives and interests of the Russian Federation as a public-law entity, including against powers vested upon federal government authorities, to establish a federal property management system to achieve specific goals through “road maps”, to define a structural composition of federal property and a sequence of privatization of federal properties as business units).

However, the following problem-solving toolkit is almost the same, particularly with regard to the highlighted (in Goal #1) objective of (2) increasing the efficiency of federal property disposition and enhancing federal property commercialization policies, including privatization tools.

In the original version of the Program, respective policies were defined as a toolkit to deal with objectives for achieving a second goal on its own (to achieve optimal composition and structure of federally owned properties by reducing government participation in the economy, as well as streamline the composition of federal agencies operating in competitive economic sectors). The objectives were to switch from disposition of separate property or federally owned properties to disposition of business units, to increase the efficiency of disposition of equity shares in big shareholding companies with government equity participation with the aim to creating conditions for investment, securities market promotion as well as modernization and technology-led economic development, to gradually reduce the number of federal state unitary enterprises, as well as optimize the composition of other federal agencies. In this respect, a certified copy of an entry in the federal property register and technical stock-taking documents as necessary and sufficient grounds for ownership registration was mentioned among other policies proposed in the original version of the Program in the context of easing federal registration of immovable property ownership.

Goal #2 (the new version of the Program, II) – to increase federal property management efficiency – is formulated more concisely than that in the original version of the Program (Goal #3 is to increase the efficiency of corporate governance model for companies with an interest owned by the federal government, efficient management of federally owned properties with the proprietary interest transferred to federal agencies, federally owned land parcels, as well as properties that belong to the Treasury of the Russian Federation).

The key objective is formulated more concisely too: (3) to increase the efficiency and quality of corporate governance of companies with an interest owned by the federal government, federally owned properties including federally owned land parcels.

Such objectives were mentioned in the original version of the Program: to increase the quality of corporate governance of companies with an interest owned by the federal government and the effectiveness of vertically-integrated companies and holding companies, to streamline mechanisms of shareholder’s rights of the federal government with regard to publicly-traded companies (OAOs), to ensure efficient management, appropriate use and safekeeping of

federally owned properties of federal organizations, to minimize the number of properties constituting the Treasury of the Russian Federation (interim status of federally owned properties), to provide a proprietary framework for federal government authorities as well as other organizations as stipulated by statutory acts, including policies aimed at accommodating certain organizations in premises that meet up-to-date operational requirements and exercising powers vested on government authorities, to ensure rational, efficient use of land parcels owned by the federal government and maximum yield.

Like in Goal #1, the original and new versions of the Programs have the same list of policies to achieve set objectives, except that supervisory boards of companies with government equity participation, including independent experts, are mentioned in addition to governing boards in the new version.

Goal #3 (the new version of the Program, III) is to provide efficient supervision, accounting and monitoring of the use of federally owned properties. In the original version of the Program, this goal (Goal #4) was less explicit: to provide federal property management supervision, to decrease the probability of failure to achieve the set goals and objectives, as well as to minimize potential losses from unfavorable circumstances and conditions.” In addition, there was a separate goal (Goal #5) for federal property accounting and monitoring through introduction of a unified federal property accounting and management system including mechanisms of collection and presentation of information for making and analyzing the effectiveness of management decisions regarding federally owned properties.

The new version of the Program sets only two objectives to achieve Goal #3: (4) to broaden supervision channels and to increase personal liability for management and use of federally owned properties, (5) to increase the effectiveness of the system of accounting and monitoring of the use of federal property.

The original version of the Program contained a wider range of such objectives (to increase liability of authorized federal property managers (persons) for mismanagement, for federal property management reporting and to improve reporting procedures and forms for achieving target performance indicators set by federal agencies and companies with an interest owned by the federal government, for developing an integral scheme of incentives and liability of all those involved in the federal property management process for enhancing monitoring and expanding supervision channels over the use of federal property and the achievement of target performance indicators). Those objectives were complemented with objectives implied by the goal of federal property accounting and monitoring (to increase the accounting efficiency regarding federal property by defining its composition and levels of accounting itemization, by developing accounting and federal property management systems, by document management and storage (management decisions library) through digitizing respective paper document archives regarding federal property management, to switch to electronic interaction between managers, to create new channels for interaction between federal property managers, potential investors and the general public).

Like the foregoing goals, the new and the original versions of the Program have almost the same toolkit designed to achieve the set objectives, except that the new version contains policies to increase the quality of projection and planning for federal budget revenues from disposition and use of federal property.

Preliminary outputs

Both the new and the original versions of the Program contain a whole host of schedules thereto, of which data on metrics of indicators are of most interest. Publication of the data allows

one not only to compare the two versions of the Program but also measure actual program outputs over the first half of the Program (*Tables 13–16*).¹

The dynamics of the Federally-Funded Program for Federal Property Management in 2013–2016 with regard to defining the target function of properties can be viewed as an evidence of earlier than expected achievement of target values across all categories (*Table 13*). Formal 2018 target indicators for unitary enterprises were achieved earlier than expected, in 2015, which might have been the reason why this indicator cannot be found in the set of indicators in the new version of the Program.

Table 13

Implementation of 2013–2016 Federally-Funded Program for Federal Property Management and indicators until 2019 with regard to target function definition (share of assets with specific target function)

Indicator	2013		2014		2015		2016		2017	2018	2019
	target	actual	target	actual	target	actual	target	actual			
Percentage share of FSUEs*	25	87.1	35	97.8	45	100	60	100	–	–	–
Percentage share of shareholding companies with government full ownership interest	25	58.9	35	61	45	68	50	65.5	100	100	100
Percentage share of federal treasury properties	5	45	10	27.1	15	39	20	**	40	45	50
Percentage share of FGAs	–	0	–	20.5	–	32	5	49	60	100	100

* not included in the new 2017 version of the Program;

** the indicator was estimated using an information system KAZNA (hereinafter KAZNA). The Accounts Chamber of the Russian Federation held an onsite inspection (Examination of adequacy of policies to ensure safekeeping of federal treasury properties of the Russian Federation, save for federally owned interest, stake (share) in the charter (pooled) capital of shareholding companies and partnerships (as part of progress control measures regarding the Federally-Funded Program for Federal Property Management)) at the Federal Agency for State Property Management, which revealed improper operation of KAZNA for calculating the quantity of properties/assets. KAZNA's technical problems led to using incorrect data for calculation of the indicator for previous periods and incorrect values of indicators.

Source: The Federally-Funded Program for Federal Property Management adopted on April 15, 2014 by Russian Government's executive order No. 327, last updated on 31 March 2017, Rosimushchestvo's performance reports for 2013–2016, www.rosim.ru.

Therefore, higher values were expectedly set for 2017–2019 indicators for other categories of assets: the target function for shareholding companies and for federal government agencies was supposed to be defined in 2017 and in 2018, respectively (in 2018 in the original version of the Program), whereas the previous version of the Program expected the target function to be defined for only 15 percent of federal government agencies by 2018. Special emphasis is to be placed on properties that belong to the Treasury of the Russian Federation. The target function for this category is anticipated to be defined earlier than it was scheduled in the original version of the Program. This, however, is to be done by 2019 for only half of properties, and

¹ Despite the fact that the initial stage of the Program covered 2013–2015, it is relevant to examine the 2013–2016 program outputs due to an extension of the Program through 2019 and published Rosimushchestvo's Performance Report 2016.

KAZNA's technical problems revealed by The Accounts Chamber of the Russian Federation and reported by Rosimushchestvo in its 2016 performance report raise the question about whether the values for this indicator are substantiated.

The dynamics of the Federally-Funded Program for Federal Property Management in 2013–2016 with regard to streamlining the property composition and structure (*Table 14*) shows noticeable deviations in cutting the number of business organizations that are related to federal property (unitary enterprises and shareholding companies with government equity participation). Target and actual values were approximately the same only in 2013. In 2014, the dynamics of decline in the number of economic agents' business-related organizations turned out to be below target values: 8.8 percent for JSCs with government equity participation (against the target set at not less than 15 percent), 6.3 percent for FSUEs (against the target set at not less than 12 percent). In 2015, in percentage terms, the actual figures matched the target (12 percent) for JSCs, whereas actual figures (12 percent) for FSUEs were marginally below the target (13 percent). In 2016, amid an explicit deviation of the indicator for decline in the number of FSUEs (actual value of 9.7 percent compared with the target set at not less than 15 percent), the decrease rate (20.9 percent) for JSCs tripled the target set at not less than 6 percent.

Table 14

Implementation of 2013–2016 Federally-Funded Program for Federal Property Management and indicators until 2019 with regard to streamlining property composition and structure

Indicator	2013		2014		2015		2016		2017	2018	2019
	target	actual	target	actual	target	actual	target	actual			
Annual decline in number of JSCs with government ownership interest, percentage change year on year	not less than 9	10.3	not less than 15	8.8	not less than 12	12	not less than 6	20.9	not less than 5	not less than 6	not less than 7
Annual decline in number of FSUEs, percentage change year on year	not less than 6	6.9	not less than 12	6.3	not less than 13	12	not less than 15	9.7	not less than 20	not less than 13	not less than 13
Disposition of big highly sought investment properties through public offering (out of such properties envisaged for disposition under this year's decisions of Russian President and/or Russian Government B) (exchange transactions and strategic sales) (quantity)*	not less than 4	6	not less than 4	2	not less than 4	0	not less than 4	3	–	–	–
Acreage reduction of non-commercialized federal treasury land parcels as percentage of area of federal treasury land parcels in 2012 (excluding de-commercialized and restricted for commercialization land parcels.), in percentage terms	5	3.7	10	21.5	15	17	20	33.9	25	30	35
Decrease in number of federal treasury properties (excluding land parcels)	1	2.5	3	4.6	5	5	7	**	9	11	12

from 2012 (excluding properties owned exclusively by the Russian Federation), in percentage terms											
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* not included in the new 2017 version of the Program;

** the indicator was estimated using an information system KAZNA (hereinafter KAZNA). The Accounts Chamber of the Russian Federation held an onsite inspection (Examination of adequacy of policies to ensure safekeeping of federal treasury properties of the Russian Federation, save for federally owned interest, stake (share) in the charter (pooled) capital of shareholding companies and partnerships (as part of progress control measures regarding the Federally-Funded Program for Federal Property Management)) at the Federal Agency for State Property Management, which revealed improper operation of KAZNA for calculating the quantity of properties/assets. KAZNA's technical problems led to using incorrect data for calculation of the indicator for previous periods and incorrect values of indicators.

Source: The Federally-Funded Program for Federal Property Management adopted on April 15, 2014 by Russian Government's executive order No. 327 last updated on 31 March 2017, Rosimushchestvo's performance reports for 2013–2016, www.rosim.ru.

In the new version of the Program, decrease rates in 2017–2019 are slower than in the original version (5–7 percent compared with 8 and 18 percent in 2017–2018, respectively), whereas they are the same for FSUEs (20 percent in 2017 and 13 percent in 2018–2019 compared with 20 percent and 13 percent in 2017–2018 of the 2014 version of the Program).

An important indicator in the original version of the Program was at least 4 deals (since 2013) involving highly-sought big investment properties through public offering (exchange transactions and strategic sales) with regard to properties envisaged for disposition upon current year's decisions of the Russian President and/or the Russian Government. The value (6) of this indicator in the pre-crisis 2013 was 1/5 times the target. The number of such deals in 2014 decreased substantially (tripled) compared with 2013, and no such deals were specified for 2015. The number of deals in 2016 was bigger (3) than that (2) in 2014, but halved (6) compared with 2013. A total number of such deals (11) represented less than 3/4 of annual values in four years (2013–2016), according to the Program.

Acreage reduction (compared with 2012) of non-commercialized federal treasury land parcels lagged behind the target at the onset of the Program (2013), but then outran it by more than 1.5–2 times in 2014 and 2016. In light of what was achieved in 2016, when 2016 year-end acreage of non-commercialized federal treasury land parcels was reduced by more than one third (from 2012), the 2017–2019 targets of the new version of the Program seem to be slow because they match the indicators set in the original version (a decline of 25–35 percent from 2012).

The same holds true for changes in the number of other federal treasury properties. In 2017–2019, the number is expected to decrease by 9–12 percent from 2012, whereas decline rates in 2013–2015 were faster or similar to target values. In 2016, the problem of correct calculation of indicators using KAZNA data emerged, as noted above.

Table 15

Implementation of 2013–2016 Federally-Funded Program for Federal Property Management and indicators until 2019 regarding federal asset management toolkit (actual indicators only for JSCs with government ownership interest)

Indicator	2013		2014		2015		2016		2017	2018	2019
	target	actual	target	actual	target	actual	target	actual			
Share of civil servants in governing and supervisory boards of JSCs with	50	34.3	30	29.6	30	27	30	28.7	50	50	50

government ownership interest, in percentage terms											
Share of JSCs (listed in Special List*, as well as other JSCs with government controlling interest) whose long-term programs include indicators for labor productivity growth, high-productive jobs creation and modernization, in percentage terms **	-	-	-	-	-	-	-	-	70	80	90

* companies where shareholder's position of the federal government regarding some critical issues is to be determined at government level;

** a new indicator introduced by the 2017 version of the Program

Source: The Federally-Funded Program for Federal Property Management adopted on April 15, 2014 by Russian Government's executive order No. 327 last updated on 31 March 2017, The Rosimushchestvo's Performance Report for 2016, www.rosim.ru.

The management toolkit for federally owned assets (*Table 15*) is in fact related to an indicator representing a share of civil servants in governing and supervisory boards of JSCs in which the federal government owns an interest. In 2013, the value of this indicator (more than 1/3) was much less than the target (1/2). The same was seen when signs of economic downturn emerged in 2014–2016, although the Prime Minister said civil servants would be temporarily back in governing boards of federally owned companies to provide a more thorough supervision (no scope and term of such policies were specified).¹ At that period, a share of civil servants came out to be marginally smaller than the target set forth by the original version of the Program for 2014–2018 (a constant value of 30 percent). In the new version of the Program, the 2017–2019 indicator for a share (50 percent) of civil servants is equal to that for 2013 and is therefore questionable.

Regarding a new indicator (a share of JSCs in long-term programs that include certain indicators), as of August 01, 2017, indicators for labor productivity and labor productivity growth policies were included in long-term development programs (LTDPs) of 41 (or 82 percent) out of the 50 JSCs listed in the special list, as well as of 134 out of 252 JSCs not listed in the special list, in which the federal government owns an interest of more than 50 percent in aggregate (or more than 53 percent).² Therefore, while most important companies with an interest owned by the federal government had already reached the 2018 target, other companies with a controlling interest owned by the federal government have to put this matter on top of their agenda. However, consideration is to be taken of the fact that this refers only to companies with stable financial and business operations, in which Rosimushchestvo exercises shareholder's rights.³

The 2013–2016 dynamics of the Federally-Funded Program for Federal Property Management with regard to technology-led development of governance processes (*Table 16*) can be viewed as an evidence of achieving target values for most of the indicators, some of which were greatly outperformed by actual values.

¹ At the peak of crisis, with no fear // Rossiiskaya Gazeta, January 15, 2015, No. 4 (6575), pp. 1, 4.

² The 2016 year-end report on the management of federally owned shares in publicly-traded companies and the federal government's golden share (participation in corporate governance) in publicly-traded companies

³ Excluding JSCs where shareholder's rights are transferred on the government's behalf to other federal executive authorities and government corporations (GCs), or such JSCs have concluded a deed of trust, as well as JSCs in bankruptcy proceedings, and in liquidation, reorganization.

In 2014–2016, in particular, nearly all public services were rendered in electronic format (more than 90 percent at 35, 50 and 65 percent, respectively, as recorded by the Program). Rosimushchestvo’s services were fully digitized as provided for by the new version of the Program in 2017–2019, although this was expected to be done 100 percent in 2018 under the original version.

There are more questions to be answered regarding short-term (2017–2018) extrapolation of the degree of federal property accounting with a constant value of 80 percent set by the Program since 2014, with increase to 90 percent only in 2019. However, actual values for this indicator in 2015–2016 turned out to be less than those seen in 2013–2014, but matched the target.

In addition, federal organizations’ complete integration into the FSIAS USPMS was far ahead of the schedule in the original version of the Program. In 2016, organizations with a government full ownership interest where fiscal accounting and reporting/accounting system was fully integrated into the FSIAS USPMS accounted for 40 percent of the total (the target was set at 20 percent), and 15.7 percent (the target was 10 percent) for organizations in which the federal government owns an interest of less than 100 percent, with the latter marginally higher (20 percent) in 2015.

Table 16

Implementation of 2013–2016 Federally-Funded Program for Federal Property Management and indicators until 2019 with regard to management processes technology-led development

Indicator	2013		2014		2015		2016		2017	2018	2019
	target	actual	target	actual	target	actual	target	actual			
Share of federally owned properties registered with the register of total identified and subject to registration properties (within current year), in percentage terms	70	96.6	80	100	80	80	80	80.2	80	80	90
Share of digitized public services of total services rendered by Rosimushchestvo, in percentage terms	10	40	35	98	50	98	65	93.3	100	100	100
Share of legally significant electronic document flow compliant with existing laws and regulations between Rosimushchestvo, including its local branches, and federal government agencies of total document flow with federal government agencies, in percentage terms*	5	6.1	35	21.1	60	38	75	57.3	–	–	–
Share of federal organizations with government full ownership interest** where fiscal accounting and reporting/accounting system is fully integrated into FSIAS USPMS, of total number of federal organizations with government full ownership interest*	–	0	1	37.8	10	39	20	40	–	–	–
Share of federal organizations where federal government owns interest of less than 100 percent where	–	0	–	...***	1	20	10	15.7	–	–	–

fiscal accounting and reporting/accounting system is fully integrated into FSIAS USPMS, of total number of federal organizations in which the federal government owns interest of less than 100 percent, in percentage terms*											
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* not available in the new 2017 version of the program.

** this indicator is mentioned in the Program 2014 with regard to shareholding companies with a government full ownership interest which differs from the population of federal organizations with a government full ownership interest;

*** there is no data available for 2014 values of the indicator representing a share of federal organizations in which the federal government owns an interest of less than 100 percent where fiscal accounting and reporting/accounting system is fully integrated into the FSIAS USPMS, of the total number of federal organizations in which the federal government owns an interest of less than 100 percent.

Source: The Federally-Funded Program for Federal Property Management adopted on April 15, 2014 by Russian Government’s executive order No. 327 last updated on 31 March 2017, Rosimushchestvo’s performance reports for 2013–2016, www.rosim.ru.

Conversely, the increase in the share of legally significant electronic document flow compliant with existing laws and regulations between Rosimushchestvo, including its local branches, and federal government agencies of total document flow with federal government agencies was behind the schedule. The value for this indicator was nevertheless above 50 percent (more than 57 percent vs. the 75 percent target) at 2016 year-end.

In terms of fiscal performance, figures for federal budget revenues from federal property management and disposition (excluding revenues from privatization) were ahead of the schedule throughout the entire period of 2013–2016. The indicator stood at 103.4 percent in 2013, 157.8 in 2014, 108.0 in 2015, 103.4 in 2016. The indicator is not applied in 2017–2019.

Budgetary assignments are expectedly to be completed in full in 2017–2019 with regard to two new indicators describing the federal property management performance efficiency for the federal budget. Furthermore, two important updates were made: 1) revenues from disposition of shares of biggest JSCs were removed from the indicator for federal budget revenues from disposition of stakes in the charter capital of business partnerships and entities, and 2) Russian Government’s dividend omission decisions must be considered with regard to the indicator for revenues accrued to stakes in the charter of business partnerships and entities, or dividends on shares held/owned by the federal government.

There are much more questions to be answered regarding another new indicator. The ratio of the purchase price and the estimated value of properties with ownership transferred to the federal government is expected to increase during 2017–2019. However, specified values (30 percent in 2017, 40 percent in 2018, 50 percent in 2019) imply that a pricing policy focusing on property nonliquidity, which in fact can be liquid, is allowed.

An illustration of this is sales of luxury property owned by VIPs. For example, the Rosimushchestvo Moscow Branch sold Ruslan Shamsuarov’s Mercedes-Benz G63AMG¹ through Sberbank-AST Electronic Trading Platform (ETP). A professional valuator *estimated* the fair market value of the vehicle at Rb 7538 thousand. The value was lowered by 30 percent due to lack of bids pursuant to Clause 17(1) of the Provision for disposition of properties with

¹ LUKOIL Vice-President’s son Ruslan Shamsuarov was the defendant in a media-covered Gelandewagen reckless driving case. The court held that Shamsuarov’s Mercedes-Benz Gelandewagen, which was seized as a physical evidence, must be confiscated by the federal state.

ownership transferred to the federal government, adopted by a Russian Government's executive order.

An auction for the motor vehicle, allowing for an increase in the offer price in case of high bidding activity, was held on December 27, 2017 and declared a success, i.e. the *highest bidder* was declared the purchaser. The auction opened at RUB 5276.6 thousand and closed at RUB 6068.09 thousand, 15 percent above the offer price, but nearly 1/5 less the valuator's price.¹

In addition to data on values of indicators in the new version of the Program, the schedules thereto contain a List of core measures, Data on projected key legal regulatory policies, Resource provision for the Program through federal allocations, the Program Implementation Plan for 2017 and the Planning Period of 2018 and 2019. What is noteworthy is, without getting into details, a sharp shrinkage of package of laws and regulations (LRs) proposed for adoption. This refers to amendments to a legal act and two presidential executive orders, whereas the previous version contained a list of 22 LRs, and the 2013 Program had 28 LRs.

To summarize the adoption of the new version of the Federally-Funded Program for Federal Property Management in 2017, the following is noteworthy. The Program is indeed one of the most important instruments of the national economic policy in recent five years. The program could have been adopted earlier, shortly after the general Concept of Federal Property Management and Privatization in the Russian Federation was adopted in 1999, as well as during a new stage of privatization since the early 2010s, when it was an opportune time for such an omnibus hands-on document.

The outputs of the Sub-program for 'Enhancing the Efficiency of Federal Property Management and Privatization' in 2013–2016, given the values of most of the indicators, show that actual values were ahead of target values, which relates to formal definition (not a substantiated assessment) of the federal property target function and management, including the technological aspect of the process. In addition, there was a noticeable deviation in the decrease in the number of business organizations related to federal property (unitary enterprises and shareholding companies with government equity participation) amid unexpected success in reducing the acreage of federal treasury properties (land parcels). Total number of major deals through public offering over four years turned out to be less than the annual total, according to the Program's data, mainly because of its outputs in 2014–2015.

Recent changes to the Program come down to the following:

- amid recently slimmed federal allocations, the Program was extended for one year (till 2019), the bulk of federal allocations cover, as before, the sub-program for 'Public Tangible Reserves Management' in the offing;

- goals and objectives of both the Program and the Sub-program for 'Enhancing the Efficiency of Federal Property Management and Privatization' are formulated more concisely and precisely;

- anticipated outputs were in part linked to timing (renewal of the federal property disposition system and setting the target function for organizations with an interest owned by the federal government by 2019) and quantitatively defined (dynamics of decrease in the number of federal treasury properties) as the toolkit designed to achieve established objectives remained unchanged;

- a set of indicators describing the implementation of the Program was renewed substantially (most of the indicators for management techniques and the indicator for the number of big deals

¹ www.rosim.ru, January 15, 2018.

through public offering were removed; indicators for fiscal efficiency of asset management (including privatization) were further extended; new controversial indicators related to the development of companies with government equity participation and disposition of property with ownership transferred to the federal government emerged).

Considering 2013–2016 outputs and adjustments, further prospects of the Federally-Funded Program for Federal Property Management can be viewed as relatively favorable prospects. Prerequisites for this are based on focusing on slow or sluggish dynamics of decrease in the number of federally owned assets; steadiness of projected values of indicators for a share of civil servants in governing and supervisory boards of JSCs with government equity participation and completeness of federal property accounting till 2019; noninclusion of deals involving biggest companies in assessment of federal budget revenues from disposition of shares, which, according to previous years' practice, show a strong effect of the business component; consideration for certain dividends omission decisions when dividends are transferred to the federal budget.

There are, however, a *few areas of concern* inherent in the new version of the Program.

First, there is a clear priority of quantitative approach towards assessing a possible contraction of the public sector. Program's rates of decrease in the number of JSCs with government equity participation and FSUEs are not justified in terms of final assessment of how many FSUEs are needed to perform government functions and so that the federal government could adequately play its role in a economy. Neither are they justified in terms of engaging concrete mechanisms of government property supervision (various types of unitary enterprises, a share of various values in the equity of shareholding companies (JSCs and LLCs), the use of golden share, special types of ownership that are formally related to not-for-profit organizations (federally owned corporations and companies, autonomous organizations)).

Based on Rosstat's data (as of early 2017¹) on the number of economic agents related to federal property, namely 1356 shareholding companies and 1245 FSUEs, this number will drop approximately to 1100 and 750, respectively, by 2020 if Program's targets are achieved. As of early 2017, however, the scale of government assets at federal level for all categories of corporate entities was many times less than what was stipulated in the Concept 1999: 1.4 thousand shareholding companies vs. nearly 3.9 thousand (a decrease by nearly 3 times), about 1.25 thousand federal unitary enterprises vs. nearly 13.8 thousand (less by an order of magnitude), 16.2 thousand agencies vs. 23.1 thousand (a nearly 30-percent decrease). An exception to this are organizations for which there is no annual decrease indicator similar to that for shareholding companies with government equity participation and unitary enterprises.

It is important for this matter that a goal-oriented approach towards federal property should be supplied with analysis of potential effects of privatization with consideration for its feasibility, comparative economic effectiveness and allocative efficiency of public and private sectors, opportunity costs and the impact on certain markets, industries, regions, national economy as a whole. Furthermore, streamlining the composition and structure of federal assets through reducing their quantity cannot be equated with privatization. Contribution of blocks of equity shares and other assets to the charter capital of various federally controlled integrated companies, transfer of assets to other level of public ownership, liquidation of economic agents as part of bankruptcy proceedings do their part.

¹ Statistical data on the Performance Measures Framework for Federal Property Management, www.gks.ru, March 20, 2017

Second, switching to measuring the fiscal efficiency of privatization by the degree of forecasting accuracy in the privatization program (net of biggest asset sales) *inevitably raises a question* about the quality of forecasting and planning of federal budget revenues from disposition and use of federally owned properties in terms of justifying respective figures/values.

The Forecast Plan (Program) for Federal Property Privatization for 2017–2019 contains a target amount set for federal budget revenues from federal property privatization net of annual RUB 5.6 billion worth of shares in biggest companies, whereas the 2017 Report on Execution of the Forecast Plan (Program) for Federal Property Privatization for 2017–2019 reports RUB 5.83 billion of federal budget revenues from sold properties (excluding biggest sales), i.e., 104 percent of the target amount. A relatively easy achievement of targets is illustrated by the previous program’s outputs: the target for annual budget revenues was set at RUB 3 billion, whereas actual amounts were RUB 8.0 billion in 2014, RUB 7.3 billion in 2015, RUB 9.5 billion in 2016, respectively.

Like in the previous versions, the Program contains no indicators for off-budget effects of privatization (investment promotion, competition and securities market, employment dynamics). However, the final paragraph (before the list of schedules) of the Program contains a separate reference to released public-sector workforce as an extra effect of federal property restructuring coupled with lifting the burden of property maintenance expenses and broadening the business sector’s material base.

Third, there are few questions to be answered regarding management of federally owned assets. The indicator for a share of civil servants in governing and supervisory boards of JSCs with government equity participation fails to provide a comprehensive view of the entire body of government representatives because it doesn’t cover proportions between other groups of persons generally referred to as professional directors (professional trustees and independent directors).

The following is to be considered to assess prospects for changes in the above indicator: the possibility and feasibility of engaging professional directors as members of governing and supervisory boards of military-industrial organizations related to the national security, which deserves a separate consideration,¹ as well as subsidiary and associated companies of vertically-integrated companies and holding companies. It is obvious that quantitative characteristics of civil servants’ membership format may need a major revision while selling a government ownership interest (equity participation) in companies with ordinary activities not subject to restrictions, and potential expansion of the practice of engaging professional directors to subsidiary and associated companies.

The indicator for a share of JSCs with government equity participation whose long-term programs contain indicators for labor productivity growth, creation and modernization of high-productive jobs describes just a single aspect of technical and economic efficiency, which is not related to outputs. The quality of corporate governance remains off the table as well.

It’s not quite clear (in the Program) whether the amount of revenues from the amount of dividends scheduled for reporting year is equated with the respective budgeted amount and how Russian Government’s dividend omission decisions will be considered.

¹ An exception was made for military-industrial companies related to the national security in the 2013 Federally Funded Program for Federal Property Management which had an indicator for a share of public-sector employees in governing and supervisory boards of JSCs with government equity participation.

The Program has no whatsoever indicators describing management of the federal property portfolio such as unitary enterprises, institutions, immovable properties including land parcels.

Fourth, the Program contains no analysis of risks to be mitigated through Program's policies. The previous 2013 Federally-Funded Program for Federal Property Management contained policies to deal with risks: an increase in government's informal pressure on privatized companies in case of insufficient regulation of industries in question; expansion of government and quasi government entities in the course of privatization; limited positive structural effects of privatization amid sluggish "external" policies aimed at improving investment environment, developing competitive environment, enhancing corporate governance; nontransparent preparation and making of decisions amid passive behavior of government authorities; token approach towards introducing management innovations. There are more risks that may arise throughout the program: a lack of adequate laws and regulations; inconsistency between property composition and government functions, low management efficiency, a weak investment promotion in the real sector, failure to generate nontax federal budget revenues, inadequate coordination and interaction between various government authorities, most of which are still pressing issues.