

## GOVERNMENT PROGRAM 'FEDERAL PROPERTY MANAGEMENT' ITS INITIAL IMPLEMENTATION PHASE

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*As can be concluded on the basis of the data released by the RF Federal Agency for State Property Management (Rosimushchestvo) in its 2014 year-end report, the majority of targets set in the Government Program (GP) 'Federal Property Management' for the year 2014 were met and even surpassed – in many cases significantly. In the light of the achievements of 2013–2014, the future prospects for implementing the Government Program 'Federal Property Management' can be estimated as rather favorable. However, certain complications associated with planned budget cuts cannot be ruled out altogether, because in the spring of 2015 some downward adjustments were made to the federal budget for 2015–2017. These cuts affected not only this GP, but also the related Government Program 'Government Finance Management and Financial Markets Regulation' (subprogram 'Normative and Methodological Backing for, and Organization of the Budgetary Process') and 'Economic Development and Innovation Economy' (Federal Target Program (FTP) 'Development of a Single State System for Registration of Titles and Cadastre Immovable Property Records (2014–2019)'). Another example of how the economic crisis has influenced the targets set in the Government Program is the announcement made by the Government's head of the reassignment, on a temporary basis, of civil servants to the managerial bodies of state companies in order to exercise closer control over them (without specifying the scale and timelines of these measures).*

All the main components of the current government property policy are formalized in the RF Government Program 'Federal Property Management', approved by Decree of the RF Government of 15 April 2014, No. 327 (GP 2014) and designed to replace the previously adopted Government Program with the same title, which had been run for only 14 months or so<sup>1</sup>.

The quantitative targets put forth in the new Government Program (GP) 'Federal Property Management until 2018' roughly correspond to the targets set in the Government Program for 2013. It should be reminded that these are targets like, for example, the relative shares of different types of federal property entities (by category) with their specifically determined target functions (unitary enterprises, economic societies with state stakes, state institutions, property entities held by the RF Treasury); the rates of decline in the number of entities (by main category) for enterprises and JSC are determined as per cent per annum, for property entities and land plots held by the RF Treasury and not involved in economic turnover – as per cent change on 2012 (with the exception of entities whose turnover is restricted, or entities withdrawn from turnover)); the indicators of changes in the technological evolution of the processes of fed-

eral property management; and some other targets. At the same time, the newly adopted document, in contrast to the 2013 Program, lacks the targets achievable in the event of allocation of additional resources, which is the logical outcome of the budget constraints imposed in connection with those difficult conditions under which the Russian economy has been laboring in the past year-and-a-half period.

The general idea as to the implementation of the currently adopted Government Program can be gleaned from *Rosimushchestvo's* year-end report on its activity in 2014. Its publication can be viewed as an important development, in the sense that it has further increased the transparency of government property policy. This is the second such publication since the launch of the Government Program after the year-end report for 2013<sup>2</sup>. We should like to more closely consider those quantitative key targets of the new Government Program that have to do with the implementation of the subprogram 'Improvement of Federal Property Management and Privatization Efficiency'<sup>3</sup> (Table 1). All these data refer to that two-year interval when the government property policy was being implemented in accordance with two, not one, guideline documents

1 Approved by Directive of the RF Government of 16 February 2013, No 191-r.

For a more detailed discussion of the Government Program for 2013, see Malginov G., Radygin A. Public sector and privatization // *Russian Economy in 2013. Trends and Outlooks* (Issue 34). M., IEP. 2013, p. 433–475.

2 In *Rosimushchestvo's* reports for previous years available to us, privatization is the main focus of attention (with few exceptions – for example, in the 2008 year-end report), while all the other areas of the Federal Agency's activity are dealt with only briefly.

3 This is one of the subprograms that form the Government Program 'Federal Property Management', alongside the subprogram 'Management of State-owned Material Reserve'.

Table 1

**THE MAIN TARGETS SET IN THE GOVERNMENT PROGRAM 'FEDERAL PROPERTY MANAGEMENT'  
FOR THE PERIOD 2013–2014 AND THEIR IMPLEMENTATION**

Targets	2013		2014	
	plan	fact	plan	fact
<b>1. Specifically determined target functions of federal property entities (share by category, %):</b>				
– federal state unitary enterprises (FSUE)	25	61	35	97.8
– economic societies with federal shares (or stakes)	25	59	35	61
– property entities held by RF state treasury	5	0.8	10	27.1
– federal state institutions (FSI)	0	0	0	20.5
<b>2. Optimization of composition and structure of federal property:</b>				
– per cent reduction, on previous year, in total number of economic societies with state stakes	at least 9	10	at least 15	8.8
– per cent reduction, on previous year, in total number of FSUEs	at least 6	4	at least 12	6.3
– per cent reduction, on 2012, in total area of land plots held by RF treasury and not involved in economic turnover (except land plots withdrawn from turnover and those whose turnover is restricted)	5	3.73	10	21.5
– per cent reduction in total number of property entities held by RF treasury (less land plots) on same index for 2012 (less property entities in exclusive ownership by RF)*	1	0,8	3	4.6
– sales of big property entities (attractive for investors) through public offer of shares (from lists of big property entities earmarked for sale during that year by decision of RF President and/or RF Governmenta) (stock exchange transactions and strategic sales) (units)	at least 4	6	at least 4	2
<b>3. Efficiency of federal property management:</b>				
– per cent implementation of plan for federal budget revenues generated by management and disposal of federal property, less revenues from property privatization (total)	100	103	100	157.8
– share of civil servants in managerial and control bodies of joint-stock companies with state stakes (%)	50	61	30	29.6
<b>4. Control of federal property management and technologies employed in management procedures:</b>				
– share of federal property entities entered in federal property register in total number of identified property entities, to be entered in the register (over current year) (%)	70	96.6	80	100
– share of government services provided in electronic form in total volume of services provided by Rosimushchestvo (%)	10	40	35	98
– share, in total document exchange with state-owned entities, of electronic document exchange, in compliance with existing legislation, between Rosimushchestvo (and its territorial agencies) and state-owned entities (%)	5	1.5	35	21.1
– share of state-owned entities with 100% stake held by RF** whose system accounting and tax records are fully integrated into FGIAS ESUGI*** in total number of state-owned entities with 100% RF stakes (%)****	0	0	1	37.8

\* GP 2014 applies a somewhat different definition: *entities whose turnover is restricted*;

\*\* In GP 2014 this target is applied to the category of economic societies with 100% stake held by the RF, which differs significantly from the group of state-owned entities with 100% stake held by the RF;

\*\*\* FGIAS ESUGI is Federal State Information Systems Operator Single Federal Property Management System;

\*\*\*\* among the targets set by the GP, there is a similar indicator – the share of state-owned entities with stakes less than 100% held by the RF, whose system accounting and tax records are fully integrated into FGIAS ESUGI \*, in the total number of state-owned entities with stakes less than 100% held by the RF; but the actual value of this indicator for 2014 is not reported.

Source: Rosimushchestvo's year-end report on its activity in 2013 ([www.rosim.ru](http://www.rosim.ru), 15 April 2014), Rosimushchestvo's year-end report on its activity in 2014 ([www.rosim.ru](http://www.rosim.ru), 5 June 2015).

First of all, the success in *determining the goals (or target function) of federal property entities* through comparing them with the goals and interests of the State, including the powers granted to the federal bodies of executive authority (FBEA) should be noted; this procedure implies an analysis of the performance

of the functions assigned to a given organization and its participation in the implementation of program documents, the degree of wear and tear of its fixed assets, its endowment with premises and the encumbrance on its real estate, and the organization's statistical and accounting reports.

In accordance with the GP, this should be done no later than 2018 with regard to FSUEs and economic societies with 100% state stakes. As for entities held by the RF treasury and federal state institutions (FSI), their targets for the same period (by 2018) were set at a much more modest level of 30% and 15% respectively.

As seen by the year-end results for 2014, this procedure for FSUEs will soon be completed. The actually achieved results for joint-stock companies with state stakes (61%) and property entities held by the RF treasury (27.1%) are significantly ahead of the planned targets set by the GP; and the results achieved for federal state institutions (20.5%) are higher even than the targets for 2018, although it was initially believed that the first results in this category of property entities would be visible only as late as 2016 (5%).

At the same time, the rapid progress in achieving these targets inevitable gives rise to some questions, and primarily – just how broad the range of organizations actually involved in this process is. Thus, when the relevant indicators for 2013 were being calculated, they were based on data relating to unitary enterprises and economic societies included in the first (2011–2013) and second (2014–2016) 3-year privatization programs, as well as those belonging to the category of strategic enterprises; as for property entities held by the RF treasury, the methodology for determining their target functions had not yet been fully developed, and so the value of that indicator for 2013 was derived on the basis of the decline of their number<sup>1</sup>. And the complete year-end data for 2014 necessary for an adequate analysis can be found at the Inter-Departmental 'Federal Property Management' Portal (hereinafter – ID Portal) for only 19 FBEAs, the relevant data having been prepared by a total of approximately 3,500 of their subordinated organizations<sup>2</sup>.

The next set of targets put forth by the Government Program, which have to do with *optimization of the composition and structure of federal property*, involves fixed quantitative plans for annual reduction, on 2012, in the number of joint-stock companies with state stakes and FSUEs, as well as in the total area of land plots held by the RF treasury (with the exception of land plots withdrawn from turnover, or those whose turnover is restricted), land plots that are not involved in economic turnover, and other property entities held by the RF treasury (with the exception of those property entities whose turnover is restricted).

1 Rosimushchestvo's year-end report on its activity in 2013. In the category of unitary enterprises, also the FSUE in the jurisdiction of State Academies of Sciences, the RF Ministry of Defense, and the RF President's Executive Office were included; but no information on these entities is available for the year 2014.

2 Rosimushchestvo's year-end report on its activity in 2014.

As a result, by 2018, federal state unitary enterprises managing property by right of economic jurisdiction must disappear, while the number of joint-stock companies with state stakes is expected to be reduced by half<sup>3</sup>, that of property entities held by the RF treasury (less land plots) – by 11%, and the total area of land plots held by the RF treasury and not involved in economic turnover – by 30 %<sup>4</sup>. The two indicators describing property entities held by the RF treasury in the GP are listed among the targets relating to state property management efficiency, but from the point of their true meaning they are closer to the task of optimization of the composition and structure of federal property complex.

In 2014, the pace of the downward movement displayed by the number of economic subjects belonging to the category of commercial organizations was found to be de facto below the planned targets: thus, the rate of decline in the number of joint-stock companies with state stakes was 8.8% (vs. no less than 15%), that of FSUEs – 6.3% (vs. no less than 12%). In contrast to the situation in the previous year, the decline rate of the number of joint-stock companies became slower, while the movement of the number of unitary enterprises has already displayed such a trend. It can be assumed that the movement pattern of the number of joint-stock companies resulted from the fewer sales of federal stakes (108 units in 2014 vs. 148 units in 2013), which in its turn occurred in response to last year's worsening economic situation and dwindling investment activity; as for FSUEs, these are influenced by the factor of constraints imposed on privatization of many categories of unitary enterprises engaged in specific types of economic activity (manufacture of orthopedic and prosthetic devices, disinfection services, etc.).

Against this background, the results of the optimization measures applied to the property complex held by the RF treasury look far more impressive. Thus, the per cent reduction in the total number of property entities held by the RF treasury (less land plots) on the corresponding index for 2012 (less property entities in

3 At the same time, the calculations based on the annual data taken from Annex 1 to GP 2014 reveal that the number of unitary enterprises must be reduced by 57% (or by 60% on 2012), and the number of joint-stock companies with state stakes – by 52% (or by 56% on 2012).

4 The achievement of these targets is possible if additional resources are allocated, as well as financial backing provided for the subdivision and entry in the cadastre of the relevant land plots, in accordance with the expenditure items earmarked for covering the relevant activity of the Federal Service for State Registration, Cadastre and Cartography (Rosreestr), and without taking into account those land plots that are to be received by the RF treasury as a result of privatization of FSUEs over the period 2013–2018 – the condition directly stipulated in the previously adopted government program for 2013.

exclusive ownership by RF) amounted to 4.6% (vs. the planned target of 3%). And the per cent reduction in the total number of land plots held by the RF treasury and not involved in economic turnover relative to the total area of land plots held by the RF treasury in 2012 (less land plots withdrawn from turnover and those whose turnover is restricted) amounted to 21,5% (the planned target being 10%). In fact, this means that the targets set for 2015 (for property entities held by the RF treasury) and for 2016 (for land plots) have already been achieved ahead of schedule. With regard to the latter, we can speak of the first achievements on the way towards involving the formerly unused lands in economic turnover (mostly on the basis of lease agreements), which were made after the mechanism involved in the process had been properly elaborated and tested on the basis of pilot land plots.

The number of property entities held by the RF treasury was reduced not only through their privatization (including by transfer of relevant federal property entities to the charter capital of joint-stock companies or gratis transfer of dwellings into private ownership by individuals) or recycling, but also by means of their consolidation to state institutions and enterprises, as well as by transfer of property to RF subjects and municipalities.

This is a good illustration of how privatization is by no means the same as optimization of the content and structure of state property, although the latter does reflect the overall progress and formal signs of the former. However, neither the privatization of unitary enterprises, whereby the bulk of which are transformed into economic societies (joint-stock companies as a rule) with sale of shares (or stakes) in part or in full, nor the transfer of blocks of shares to the charter capital of various integrated structures controlled by the government, really means that the public sector in the national economy is going to automatically and simultaneously shrink.

This in part is also true of the sales of big property entities (attractive for investors) by a public offer (stock exchange transactions and strategic sales). It should be reminded that one of the major targets set in the Government Program envisages that, from 2013 onwards, no less than 4 deals involving property entities that are to be earmarked for sale by decisions of the RF President and/or RF Government should be carried out. In this connection the past year, when only two such deals took place (the sale of stakes in OJSC *Arkhangelsk Trawl Fleet* (ATF) and OJSC *Inter RAO EES*), for which all the necessary preparatory procedures had been completed in 2012-2013, demonstrates a departure from the planned targets. In 2013, on the other hand, a total of 6 sales of shares in big compa-

nies were carried out due to successful reliance of the then favorable market situation and competent handling of the pre-sale procedures.

As a result, out of the 8 deals involving shares in biggest joint-stock companies that were completed in 2013–2014 with the participation of investment consultants on the basis of RF government decision to the total value of Rb 307.3bn, more than half (5) are clearly privatization deals: (JSC *Alrosa* (7% of shares to the total value of Rb 18bn)<sup>1</sup>; OJSC *Vanino Commercial Sea Port* (55% in the company's charter capital, to the total value of Rb 15.5bn); OJSC *Arkhangelsk Trawl Fleet* (ATF) (100% of shares to the total value of Rb 2.2bn); OJSC *Siberia Airlines* (25.5% in the company's charter capital, to the value of Rb 1,133bn); OJSC *Territorial Generating Company No 5 (TGK-5)* (25.1% in the company's charter capital to the value of Rb 1,080bn), but their total volume amounted to only Rb 37.9bn (or 12.3%).

At the same time, the sale of 5.66% shares in OJSC *Rosneft* to BP to the total value of Rb 148.1bn as part of a deal with *TNK-BP*<sup>2</sup> and the placement, through an open subscription, of an additional issue of shares in OJSC *VTB Bank* to the total value of Rb 102.5bn can be described as quasi-privatization deals on the basis of some of their essential features. In both these deals, no direct transfers the budget, and the monies were received instead directly by the relevant companies – OJSC *Rosneftegaz*, whose sole founder is the Russian Federation, and OJSC *VTB Bank*, in whose charter capital the size of the stake held by the RF thus shrank from 75.5% to 60.93%. These two deals also have many similarities with the deal of sale of 13.76% of shares in OJSC *Inter RAO EES* to the total value of Rb 18.8bn, when the transfer of money to the federal budget was instantly followed by a transfer (by way of compensation) of the RF shareholder right to these assets to a state-controlled structure – the already mentioned OJSC *Rosneftegaz*.

As for the indicators of achievement of planned targets for federal budget revenues generated by the management and disposal of federal property (less privatization-generated revenues) and for the share of

1 In the course of trading on the MICEX, the public offer to a broad range of potential investors in accordance with international standards included, alongside federal blocks of shares, also 7% of shares owned by the Republic of Sakha (Yakutia) and 2% of quasi-treasury shares controlled by the company itself (a total of 16%), to the total value of Rb 41.3bn, including Rb 18bn paid for the alienation of federal right of ownership to the 7% stake.

2 For a more detailed discussion of this deal, see Malginov G., Radygin A. Public sector and privatization // *Russian Economy in 2012. Trends and Outlooks* (Issue 34). M., IEP, 2013, p. 441–442; and Malginov G., Radygin A. Public sector and privatization // *Russian Economy in 2013. Trends and Outlooks* (Issue 35). M., IEP, 2013, pp. 398, 404–405.

civil servants in the managerial and control bodies of joint-stock companies with state stakes, these specifically describe the *efficiency of federal property management* unrelated to the context of the privatization process.

These indicators for 2014 are either the same or higher than the relevant planned targets. So, the planned targets for federal budget revenues to be generated by the management and disposal of federal property were surpassed more than 1.5 times, while the share of civil servants in the managerial and control bodies of joint-stock companies with state stakes amounted to 29.6% (vs. the planned target of 30%). The excess over the planned target for budget revenues generated by the use of federal property is a manifestation of the higher overall efficiency of government property policy achieved over recent years. The second indicator points to some progress by comparison with the previous year (2013), when the share of civil servants in the management of such joint-stock companies (61%) had been markedly above the government (50%) due to absence of applications submitted by professional directors (in some companies) or rejection of the available candidates to such posts (in other companies), problems faced by several joint-stock companies that necessitated the continuation of direct state control, and the fact that it was not worthwhile to establish boards of directors in small-sized companies. Meanwhile, the data for 2014 provide ample proof of the fact that the course (announced back in 2008) towards increasing the participation of professional directors (including independent directors) in the managerial bodies of JSC with state stakes, so that they would gradually replace civil servants, has been implemented rather successfully.

Besides, the program's major merit is its orientation to a new level of *technological upgrading of federal property management* necessary for ensuring an adequate level of *control over the management processes*.

Another topmost achievement is the full entry in the state records of all federal property entities, although the planned target for identifying and entering these entities into the register for 2014 was only 80%. The full integration of state-owned entities with 100% stake held by the Russian Federation into the Federal State Information Systems Operator '*Single Federal Property Management System*' (FGIAS ESUGI) was also progressing far ahead of the schedule established by the Government Program. The share of entities whose system accounting and tax records were fully integrated into FGIAS ESUGI in the total number of state-owned entities with 100% RF stakes in 2014 amounted to approximately 38% (vs. the planned target of 1%). Besides, last year was marked by the successful con-

version of a nearly complete range of government services into an electronic form (98% vs. the target of 35% stipulated in the GP). These are the evident results of a much more active involvement of *Rosimushchestvo's* central apparatus and its territorial agencies in upgrading their management technologies.

Another key target outlined in the Government Program is that, by 2018, all significant legal documentation in the framework of document turnover between *Rosimushchestvo*, its territorial bodies and government organizations must be converted into an electronic form (whenever such conversion does not contradict existing legislation. In actual practice, in 2014 the share of electronic legal documents in the total document turnover between these organizations amounted to only about 21% (vs. the planned target of 35%). However, the estimated value drawn on the basis of the electronic data with the total number of documents submitted to *Rosimushchestvo* is evidently underestimated, because it is difficult to separate state-owned entities proper from the entire massive inflow of information.

Thus, most of the targets set in the Government Program '*Federal Property Management*' for 2014 were surpassed, and in many cases significantly – with regard to determining the target functions of federal property entities and their management, including the technologies involved in the management process. A universal progress on 2013 – the year when the program was newly launched – is evident.

At the same time, there was a certain deviation in the results demonstrated in the course of reducing the number of commercial organizations that had to do so with some form of state ownership (unitary enterprises and economic societies with state stakes), while a rather unexpected success was achieved in reducing the property complex held by the RF treasury, including land plots. There was also a noticeable drop on 2013 in the number of big asset sales through public offer and sales of shares on the basis of individual scheme and with the participation of investment consultants, although on the whole for the 2-year period (2013–2014) their total number generally corresponds to the annual target set by the GP.

In view of the achievements in the course of 2013–2014, the prospects for further progress in the implementation of the Government Program '*Federal Property Management*' can be estimated as rather favorable. However, some complications cannot be ruled out altogether due to budget cuts envisaged in the adjustments to the federal budget for 2015–2017 made in the spring of 2015. These have to do not only with this GP, but also with the related Government Programs '*Government Finance*

*Management and Financial Markets Regulation*' (sub-program '*Normative and Methodological Backing for, and Organization of the Budgetary Process*')<sup>1</sup> and '*Economic Development and Innovation Economy*' (FTP '*Development of a Single State System for registration of Titles and Cadastre Immovable Property Records (2014–2019)*'). Another example of

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1 The program envisages expenditures on the services of investment and financial consultants hired to participate in the organization of pre-sale preparation and sale of shares in joint-stock companies.

how the economic crisis has influenced the targets set in the Government Program is the announcement made by the Government's head of the reassignment, on a temporary basis, of civil servants to the managerial bodies of state companies in order to exercise closer control over them (without specifying the scale and timelines of these measures)<sup>2</sup>. ●

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2 V tochke krizisa, no bez strakha // Rossiiskaia gazeta [The Russian Newspaper], 15 January 2015, No 4 (6575), p. 1, 4.