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Economic Development

EFFECTIVE MANAGEMENT OF STATE PROPERTY IN 2018–2024 AND UP TO 2035

ANALYTICAL **REPORT**

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INTRODUCTION. KEY ISSUES AND STRATEGY SELECTION

Historically, the cyclical nature (multidirectional dynamics) of the public sector in terms of its size is quite normal and depends on a multitude of global, socio-political, economic and financial factors. The public sector plays an important role in any modern national economy.

Most academic papers that attempt to compare public and private entrepreneurship tend to discuss only two alternatives: the "public entrepreneur" and the "private entrepreneur". But this is an oversimplification of the issue at hand. After all, it is difficult to imagine at our current stage of economic development any kind of public structure where the state could be "expelled," just like that, from economic relations.

And in those cases where it would be wise to shift to the wider use of market regulation mechanisms, it is the state that initiatives and organizes this shift from the outset and then monitors compliance with the rules of the competitive market "game." In other words, the regulatory and supervisory bodies must carry out their functions with regard to both private and public entrepreneurship. The best possible choice of the forms in which the modern state implements vital functions for the sake of society is the key issue.

While the theoretical discussions of the advantages and disadvantages of state entrepreneurship (including the cases of state and market "failures") that have taken place over the past half a century do not give a definitive answer[1], the overwhelming majority of empirical studies carried out in the second half of the 20th century argue compellingly in favour of private companies.[2] In a well-known review of comparisons of the performance of public and private enterprises, A. Boardman and A. Vining examined the results of over 50 research papers and compared them with their own calculations. Their main conclusion was that "The results of the study demonstrated that, when taking a wider range of factors into account [factors that affect the performance of economic operations – author's note], major industrial firms with mixed ownership and similar firms that are wholly owned by the state are significantly less effective compared to private companies of an analogous type." [3] Another review (Borcherding et al., 1982) looked at the results of 50 empirical studies. Forty of these studies suggested that private entrepreneurship was far more effective than public entrepreneurship, while in seven cases, no obvious advantage of one form of ownership over the other was evident.[4] D. Mueller examined the results of 71 studies and found that, in 56 cases, state-owned enterprises performed worse than privately owned companies.[5]

It would appear that one very important research result does concur with the theoretical conclusions, and that is that, *in almost every single case examined, the total costs were lower for private companies.* At the same time, it is these companies that produce new products (high-quality goods) on a far more consistent basis. The results of numerous studies could suggest that, in contrast to private companies, state-owned enterprises can in many cases maintain their profitability, first and foremost, by raising prices for the goods they offer. This, in combination with other factors (the fact that top executives depend less on the vicissitudes of market competition, have a greater attachment, comparatively speaking, to "purely administrative" games, suffer from a lack of initiative, etc.), severely weakens the incentive to reduce costs and/or improve the quality of the products they offer.

[1] Various observations with regard to this issue have been noted on numerous occasions in the academic literature, including as part of the debate that has raged for decades about the "failure of the state" (Radygin, A. and Entov, R. "Failures of the State": Theory and Policy // Voprosy Ekonomiki, 2012, No. 12, pp. 4–30; Radygin, A., Simachev, Yu. and Entov, R. The State Company: Sphere of the Manifestation of "Failures of the State" or "Failures of the Market"? // Voprosy Ekonomiki, 2015, No. 1, pp. 45–79), in theoretical models of the effectiveness of privatization (Radygin, A. and R. Entov. The "Fundamental" Theorem of Privatization: Ideology, Evolution and Practice // Economic Policy, No. 6, December, pp. 7–45), and through the results of numerous Russian and foreign empirical studies on the effectiveness of the production of public and private benefits in the 1970s to the 1990s and into the 21st century.

[2] A summary of comparative studies published from the early 1970s onwards can be found in: Shirley M. and Walsh, P. Public Versus Private Ownership / The Current State of the Debate. WB Policy Research Working Paper No. 2420, 2000; Privatization in the Modern World: Theory, Empiricism and the "New Dimension for Russia." Moscow, "Delo," 2014, in 2 volumes; Estrin S., Hanousek, J., Kočenda, E., Svejnar, J. (). The Effects of Privatization and Ownership in Transition Economies. Journal of Economic Literature, 2009, 47:3, pp. 699–728; Megginson W. L. Privatization, State Capitalism, and State Ownership of Business in the 21st Century. 2016. http://ssrn.com//abstract=2846784

[3] Boardman A. E. and Vining A. R. Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed and State-Owned Enterprises Journal of Law and Economics. 1989. Vol. 32, p. 29.

[4] Borcherding T., Pommerehne W. and Schneider F. (1982). Comparing the Efficiency of Private and Public Production: The Evidence from Five Countries . Zeitschrift fur Nationaloekonomie. Band 89, pp. 127–156.

[5] Mueller, D. Public Choice III. Moscow: National Research University Higher School of Economics, 2007, pp. 501–507. The theoretical models that form the basis of these comparisons and conclusions about the inefficiency of the public sector are, in essence, only able to record the part of losses incurred under the logic of ordinary market operations.

Studies indicating that public companies are more efficient are not only scarce, but also – and this would appear to be particularly significant – cover a very narrow range of industries (in four out of five cases, it is the production and distribution of electricity) where competitive mechanisms, for a number of reasons, still play a modest role. This is fully consistent with the observations about the special role of the "environment" in which public and private companies operate. In the majority of cases examined, *a true basis for high effectiveness seems to have been formed not only and not so much by the advantages of organizations and the management of private companies in and of themselves, but rather by the mechanisms of market competition that have realized their potential.*

There was a definite trend in Russia during the 2000s towards the qualitative and/or quantitative expansion of the public sector in various forms. The period 2000–2008 was characterized by a swing towards quantitative expansion. However, the situation changed in the 2010s, and the share of companies with state participation in key economic indicators has stabilized or grown only very slightly (although it is important to note the cyclical nature of these indicators given the macroeconomic situation).

In particular, this means that the process of increasing the role of the government in the economy has shifted to a different, qualitative, state. This is mainly due to the increasing role of state structures (including those not directly involved in economic operations) in the distribution of financial resources and the monitoring of economic agents; the increased activity of vertically integrated structures in a number of sectors, state corporations and development institutions; the transfer of property belonging to non-public state companies to their capital; the processes of "pseudo-privatization"; and the expansion of the spheres (areas of control) of state regulation. The process of the quantitative expansion of the state sector that was a hallmark of the 2000s also continues in one form or another: through the injection of assets into vertically integrated structures; growth of state-held stock of shares in major public companies, etc.

The scale of this process is not entirely clear. *Nevertheless, the share of public sector in the Russian economy continues to be relatively large, and the costs of this are quite obvious.*

First of all, it leads to market mechanisms functioning less efficiently – the violation of the principle of the equality of companies in their interactions with the state (a conflict of interests of the owner and the guardian of the rules of the game) and the replacement of competitive mechanisms (competition through increasing efficiency or improving the consumer appeal of products) through administrative resources or lobbyist opportunities. As a result, the economy starts to "lose traction," which is reflected in decreased growth rate and a widening technological gap with more successful countries.

Second, the state – as an abstract and impersonal concept – is a less effective owner than private structures, particularly in competitive industries. This is conditioned by the peculiarities of state property[6], which is usually seen as a kind of collective (common) property. Of course, the mechanisms for monitoring the performance of state enterprises cannot involve every single citizen. This duty is normally assigned to various executive agencies, which thus forms a system of "principal–agent" relations. This gives rise to even more questions when examining the mechanisms for monitoring the performance of the given agency's supervisory activities. This "monitoring of monitors" per se degenerates into an ineffective bureaucratic pyramid of multi-stage administrative control and formal reporting.

We cannot conclude unequivocally that state companies are *a priori* less effective than private companies. However, all things being equal, it is more difficult for the state to be an effective owner. The sheer scale of state-owned property exacerbates managerial problems.

Third, one of the more important consequences of these processes is the informal nationalization of the private sector and the appearance of "private state companies." At the same time, we are seeing a *narrowing of space for private initiatives and the erosion of civilized property relations and the opportunity to exercise one's property (or business) rights and compete on the markets in connection with the de jure and de facto expansion of the state sector.*

We can formulate the following **dilemma in the choice of strategy up to 2035:**

- The sluggish continuation of the policy to strengthen the state (the development of the unofficially declared model of state capitalism that was formed in the 2000s); or

- A policy of denationalization (formally declared at all levels of government) that involves the search for a pragmatic balance between maintaining the levers of state influence (direct intervention, strict control) and the complete withdrawal of the state from various sectors of the economy (to be replaced by industry regulation and other forms of monitoring the activities of strategic companies).

The following can be proposed as a **key idea for 2018–2024 and up until 2035:** give a new impulse to the process of denationalizing the Russian economy up to 2035, that is, effecting an overall reduction of the excessively large presence of the state sector in the economy and optimizing the management of facilities (property), which are necessary for

[6] *In his work on the philosophy of right, Georg Wilhelm Friedrich Hegel notes that certain characteristics of common property border on the "wrong" (Hegel, G. W. F. Philosophy of Right. Moscow: Mysl, 1990, p. 105).*

the state to carry out its functions and the implement the strategic goals of economic development.

At the same time, the issue of determining the extent to which the state's presence in the Russian economy should be reduced is incredibly complicated: the decision largely depends on the choice of certain strategies and indicators in specific sectors, and the (primarily political) quantity of state-owned property that is strategically necessary, as well as an understanding of the financial sources for further denationalization, need to be determined.

1.

RUSSIA AND THE WORLD IN THE 2000S: THE ROLE OF THE PUBLIC SECTOR

The 2008 financial crisis led to the governments of several countries to significantly expand state support for the private sector. As a result, record sales of state shares to the private sector were recorded in 2009–2010 (including repurchases, which cannot strictly be considered privatization).

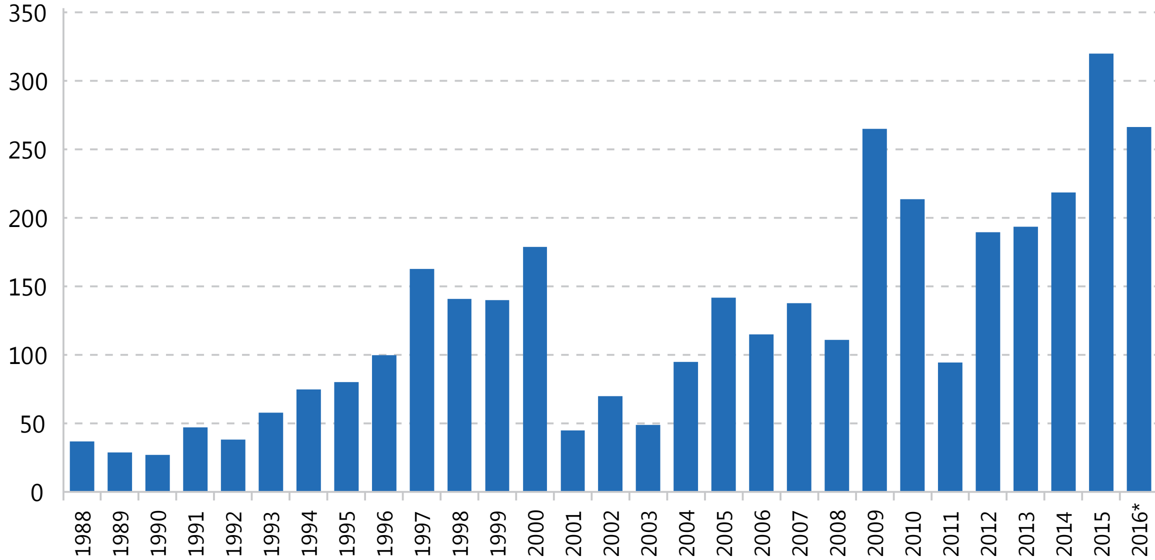
Nevertheless, from January 2013 to December 2016, revenue receipts from privatization around the world amounted to almost $1 trillion ($998.8 billion), which is significantly higher than during any comparable period from the days of Margaret Thatcher (the era that paved the way for modern privatization, starting in 1979). In 2015–2016, revenues from privatization totalled $586.3 billion. Privatization sales for 2014–2016 were the largest (third, first and second place, respectively) since 1988 (see Fig. 1), excluding the peak years of 2009–2010. It was during these years that companies started to buy back their shares, which had been purchased by the governments of various countries in order to help stabilize these companies financially during the global crisis of 2008–2009.

Modern privatization programmes bring governments almost a quarter of a trillion dollars annually, thus marking *the beginning of a new large-scale privatization wave across the glob*e that could last for a long time.

New privatization plans affect countries in practically every region of the world, although the goals of privatization may differ markedly: strategic and/or structural considerations; purely tactical steps (ideology, as a means of replenishing the budget); to increase the effectiveness of the economy; etc.

A serious shift took place **in Russia** during the 2000s compared to the previous decade with regard to the role that the government should play in property relations, namely, towards increasing its influence in that area.

Figure 1. Worldwide Revenues from Privatization, US$ Billions, 1988–2016 Source: Privatization Barometer 2015–2016*



** Preliminary data*

In 2000–2005, the efforts of the state were aimed primarily at optimizing its property presence in the economy, a remnant of the check and monetary privatization programmes (implemented in 1992–1994 and 1995–1999, respectively). After that, the government clearly expanded its presence by stepping up the activity of companies in which the state owned a share of the capital. State-owned enterprises embarked upon the path of expanding and diversifying their business, participating in mergers and acquisitions. After 2005, the policy of consolidating the disparate assets still owned by the state into integrated structures was intensified.

The emergence of state corporations in 2007–2008 was a new aspect of the government's property policy. A number of the new integration structures covered entire industries (aviation, nuclear energy, shipbuilding, etc.), including the manufacture of non-military products.

The expansion of the state's participation in the economy is also reflected in the policy documents of the time. The Concept of Long-Term Social and Economic Development of the Russian Federation until 2020 adopted in 2008 clearly notes the organic nature of the public sector in the Russian economy and recognizes the role of public enterprise. However, as far as state property management is concerned (taking individual categories of facility into account), these documents basically contain the same approaches as previous government programmes of the 2000s. An important distinction is made, however, namely that state property should correspond not only to the powers and functions of the state, but also to the structural changes that take place in the relevant sectors of the economy.

The financial crisis of 2008–2009 did not formally lead to the large-scale direct growth of the public sector in terms of new business entities appearing in the treasury, since the priorities chosen by the state were aimed at minimizing the direct expansion of the state's involvement in the capital of troubled private companies and banks.

What is more, official Rosstat data (not including the pyramid-shaped ownership structure in the mixed sector) suggests that the share of the public sector continued to shrink from 2008–2015.[7]

Nevertheless, almost all expert assessments agree that the state's share in the Russian economy has increased as a result of the activities of mixed sector companies in the market for corporate control, and also because of the direct anti-crisis measures taken by the state. In particular, the indirect influence of state-controlled banks and structures that act as government agents in the implementation of anti-crisis measures has intensified, and the scale of this process (and the potential growth of the state's influence in the future) remains unclear.

According to the European Bank for Reconstruction and Development (EBRD), the share of the public sector in the Russian economy increased from 30% in 2005 to 35% in 2010. In terms of dynamics, these figures are particularly telling. However, with regard to the size of the Russian public sector, they appear to be low of the mark. According to some estimates, the share (contribution) of companies with state participation in the GDP was around 29–30% alone in 2015, while the total contribution of the public sector amounted to 50–70% (compared to 35% in 2005).[8]

Available estimates (Troika Dialog, 2008) suggest that the federal and regional authorities controlled approximately 40% of market capitalization of the Russian stock market at the end of 2007, compared to 24% in 2004. By early 2008, around 40–45% of Russia's top companies according to the Expert 400 listing are concentrated in the hands of the government. Various estimates put this figure at around 50% in 2009.

According to IMF estimates, the share (contribution) of 26 state-owned enterprises in the GDP in 2012 was 28%, while the total contribution of the public sector amounted to 68%.[9] Federal Antimonopoly Service of Russia (FAS) statistics indicate that the share (contribution) of state-owned enterprises in the GDP in 2014 was 30%, while the total contribution of the public sector amounted to 70% (compared to 35% in 2005).[10]

[7] *According to most indicators, the relative share of the public sector did not exceed 15–25% in 2013–2015, with the exception of investments and employment.*

[8] *Review of the Panel Discussion on Public Sector Issues, 14.01.2016. Gaidar Forum – 2016 "Russia and the World: Looking to the Future." Russian Presidential Academy of National Economy and Public Administration (RANEPA).*

A study conducted by the Institute of Applied Economic Research at the Russian Presidential Academy of National Economy and Public Administration (RANEPA) in 2015–2017 agrees in large part with these estimates, although there are some significant differences – primarily in the assessments of the contribution of the state administration sector to the GDP. An analysis of the characteristics of State-Owned Enterprises (SOEs) was carried out on a sample of 106 major Russian companies with state participation and for which public financial reporting was available. As of 2016, the government had a majority stake in 86 of these companies, directly or indirectly holding over 50% of the voting shares; it had a minority stakes in the remaining 20 companies, with shares ranging from 10% to 50%. Non-public companies – that is, issuers whose shares are not listed on the Moscow Exchange – dominate the 106 SOEs. Of the 106 SOEs, only 34 were public companies (32.1%), while the remaining 72 (67.9%) were non-public.

In 2015, the value of SOEs in Russia totalled $175 billion, behind only India ($339 billion), South Korea ($218 billion) and Italy ($208 billion) among OECD countries[11]. SOEs accounted for 36.9% of the market capitalization of public companies in Russia in 2015 according to value. At the same time, despite the short-lived deviations, the share of SOEs in capitalization slightly decreased, from 50% in 2006 to 47% in 2011 and 48.7% in 2016.

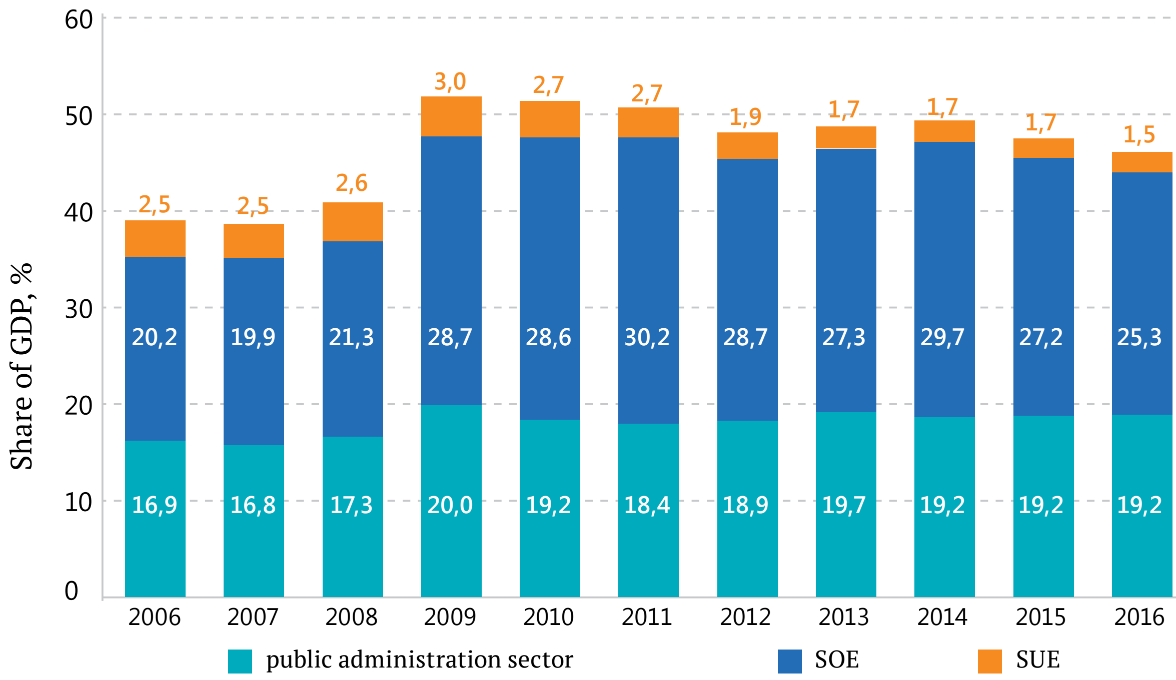
The number of people employed by SOEs as a percentage of the working population in Russia increased steadily, from 2.3% in 2006 to 4.6% in 2011 and 5.8% in 2016.

In our estimation, the average share of the state sector in GDP consists of three elements: the share of SOE; the public administration sector; and the value created by state unitary enterprises (SUEs). SOEs have made the main contribution to the growth of the relative size of the state sector – the share of SOEs in the GDP grew from 20.2% in 2006 to 25.3% in 2016. The share of the public administration sector also increased during that period, from 16.9% to 19.2%, while that of SUEs shrank from 2.5% to 1.5%. The latter was the result of a deliberate move on the part of the state to wind down this generally ineffective form of public sector organization.

As a result, the total share of the public sector in Russia's GDP, including SOEs, public administration and SUEs grew from 39.6% in 2006 to 46.0% in 2016.

[9] Review of the Panel Discussion on Public Sector Issues, 14.01.2016. Gaidar Forum – 2016 "Russia and the World: Looking to the Future." Russian Presidential Academy of National Economy and Public Administration (RANEPA).
[10] FAS. Report on Competition Policy in the Russian Federation in 2015. Moscow: Federal Antimonopoly Service of Russia, 2016.
[11] The comparison of data for Russia was carried out on the basis of calculations by the authors using data on other countries in: OECD. The Size and Sectoral Distribution of State-Owned Enterprises. OECD Publishing, Paris, 2017.

Figure 2. Components of the Total Share of the State Sector in Russia's GDP in 2006–2016, %



Source: calculated using data from a study carried out by the Institute of Applied Economic Research at the Russian Presidential Academy of National Economy and Public Administration (RANEPA)

An econometric analysis of the effects of direct, indirect and total state ownership shows that the size of the block of shares (the stake) held by the state tends to have a negative effect on performance characteristics. In terms of financial productivity – gross labour productivity, return on equity, profit margin and debt burden – SOEs underperform relative to private companies

The average gross output per employee in the private sector is greater than the average gross output per employee in SOEs – 4.91 million roubles in private companies versus 3.98 million roubles in SOEs with indirect state ownership and 1.39 million roubles in SOEs with direct state ownership in 2006. In 2014, the average gross labour productivity totalled 12.53 million roubles in private companies, 11.79 million roubles in SOEs with indirect state ownership and 4.64 million roubles in SOEs with direct state ownership.

In 2014, the average return on equity for private companies was 9%, compared to 8.77% for SOEs with indirect state ownership and 7.71% for SOEs with direct state ownership.

Moreover, the changes in the profitability of private companies is marked by a significant dependence on the indirect characteristics of labour productivity. At the same time, the relationship between return on equity and performance characteristics is not observed in SOEs.

When direct state ownership increases, this leads to a decrease in labour productivity and profitability, as well as an increase in the debt burden. Interestingly, the opposite is true of indirect state ownership [12].

As we can see from Table 1, the number of organizations listed in the federal property register declined consistently from 2000 to 2017 in all categories of legal entity.

The number of federal unitary institutions had decreased more than any other entity (by almost 70%) by the beginning of 2017, while the number of business entities in which the Russian Federation holds shares (joint-stock companies only) shrank by 47% [13].

[12] For more detail, see: Abramov, A. Radygin, A. and Chernova, M. Companies with State Participation on the Russian Market: Ownership Structure and Role in the Economy // Voprosy Ekonomiki, 2016, No. 12, pp. 61–87; Abramov, A. Radygin, A., Chernova, M. and Entov, R. State Ownership and Performance Characteristics // Voprosy Ekonomiki, 2017, No. 4, pp. 5–37.
[13] Joint-stock companies (JSCs) make up the bulk of business entities in which the Russian Federation owns holds shares. As of the beginning of 2016, only 1.2% of private limited companies included state-held shares, although the number of such companies grew from 16 to 20 in 2015 following a five-year dip (there were 29 such companies at the beginning of 2010).

Table 1. Societies and Organizations under Federal Ownership listed in the federal property register in 2000–2016.

Date	Number of companies with federal participation (including special right companies)	Other rights holders of federal property accounting entities, number			
		Total	including		
			Federal State Unitary Enterprises	Federal Treasury Enterprises	Federal State Institutions
As of January 1, 2010	2 950	…	3 517	About 50	More than 22 000
As of January 1, 2013	2 442	22 330	1 795	72	20 458
As of January 1, 2014	2 203	19 733	1 727	76	17 930
As of January 1, 2015	1 928	18 924	1 557	79	17 288
As of January 1, 2016	1 704	18 102	1 247	43	16 802
As of January 2, 2017*	1 558	13 076	1 123	43	11 910**

** figures for the beginning of 2017 includes adjustments to account for data published in open sources on sold, reorganized and liquidated societies and unitary enterprises for the past year.*

*** figures on the number of federal state institutions as of the beginning of 2017 are listed in the Treasury register (http://bus.gov.ru/pub/registry); however, they are also assigned to the authorities and their territorial bodies (as institutions), which distorts the overall picture.*

Now let us turn to the aggregate of economic companies with state share in capital, the core of the state-owned property complex at the federal level *(Table 2).*

Table 2. Distribution of JSCs Depending on the Size of the Block of Shares Owned by the Russian Federation, 2016.

Share type category	Joint-stock companies, number	Including joint-stock companies participating in the programme for 2017–2019, number	Number of joint-stock companies, % of total	Number of joint-stock companies participating in the programme, % of total
100%	765	332	44,9	43,4
Controlling (from 50% to 100%)	93	19	5,5	20,4
Blocking (from 25% to 50%)	172	53	14,5	30,8
Minority (from 1 share to 25%)	674	102	10,1	15,1
Total	**1 704**	**506**	**29,7**	

While there was an undoubted overall reduction in 2010–2016 in the number of business entities in which the state has a share, the government significantly increased its minority shares in over 40% of these companies. This accounted for around 40% of all business entities with state participation in 2016, compared to less than 24% at the beginning of 2010. At the same time, over 90% of business entities in which the Russian Federation owns less than 25% of the shares are subsidiaries of already established vertically integrated structures.[14] That is, these companies are essentially managed by the head company of the vertically integrated structure. And these minority stakes are formed by: a) the specific features of the legislative regulation of the legal mechanisms for setting up vertically integrated structures; and b) the practice of making budgetary investments in the authorized capital of companies in the military-industrial complex (in other words, the acquisition by the federal government of minority stakes in exchange for the investment of federal budget funds in the authorized capital of the respective joint-stock companies). It is for these reasons that minority stakes have never been included in privatization programmes, and the government continues to hold them.

[14] *According to Russian legislation, a joint-stock company cannot have another company consisting of a single owner as its sole participant. That is, if the state owns 100% of the shares of the head company of a vertically integrated structure, then that company cannot own 100% of the shares in its subsidiaries. These rules determine the specific features of the formation of vertically integrated structures, with the federal state keeping one share in each company that contributes to the authorized capital of the head companies of vertically integrated structures.*

In addition to this trend, it is necessary to note the problem of the role played by various factors in the management of state-held shares in company capital and their significance *(Table 3)*.

Table 3. Limited Management Opportunities in Joint-Stock Companies, 2016

Groups of Joint-Stock Companies (shares in federal ownership)	Number
Companies in which management opportunities are not limited – 450, including:	
Joint-Stock Companies included in the privatization programme for 2017–2019 (controlling stake)	**360**
Companies included in the list of strategic joint-stock companies by Decree of the President of the Russian Federation No. 1009 "On Approval of the List of Strategic Enterprises and Strategic Joint-Stock Companies" dated 04.08.2004.	**27**
Companies that are development institutions or in respect of which the Government of the Russian Federation has adopted other decisions, including on excluding them the privatization programmes for 2014–2016	**31**
Companies in which the Ministry of Defence of the Russian Federation has shareholder powers	**17**
Companies registered outside the territory of the Russian Federation	**15**
Remaining companies in which management opportunities are limited – 1254, including:	
Joint-Stock Companies included in the privatization programme for 2017–2019 (non-controlling stake)	**149**

According to the Federal State Information and Analytical System "Unified System of State Property Management," in 2016, the federal property register contained information on 1704 joint-stock companies, including 43 joint-stock companies where only a special right to participate in management (the "golden share") is used.[15] Moreover, the state had the right to fully exercise its shareholder rights in just 450 joint-stock companies (or 26.4% of all joint-stock companies).

[15] *Report on the Management of Open Joint-Stock Companies with Shares in Federal Ownership and the Use of the Special Right of the Russian Federation to Participate in the Management of Open Joint-Stock Companies ("Golden Share"), 2014 Results.*

Groups of Joint-Stock Companies (shares in federal ownership)	Number
Companies that are subsidiaries of vertically integrated structures and state corporations or which contribute to their authorized capital	**636** (of which **436**, or more than 25% of all joint-stock companies, are enterprises in which the government holds less than 2% of the authorized capital, where, in accordance with Para. 1, Article 53 of Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26.12.1995, shareholders are not permitted to put forward proposals at shareholder meetings)
Companies that are in bankruptcy or liquidation procedures or which do not conduct financial or economic activities, including companies that the tax authorities have decided to exclude from the Unified State Register of Legal Entities in the near future	**309**
Companies whose shares are not in federal ownership and in respect of which only a special right is used	**43**
Companies whose shares are subject to transferal to the ownership of the constituent entities of the Russian Federation	**1**3
Companies whose shares are sold	**83**
Companies excluded from the Unified State Register of Legal Entities for 2016	**21**

Data from the System of Indicators for Assessing the Effectiveness of State Property Management has been published since 2016. The system was approved by Resolution No. 72 of the Government of the Russian Federation dated 29.01.2015 to replace the indicators for monitoring the public sector of the economy that had been used by Rosstat since the early 2000s on the basis of Decree No. 1 of the President of the Russian Federation dated 04.01.1999 (as amended on 30.12.2012).

According to data from the new system, as of the middle of 2016, the ownership structure of some 65,200 business entities included at least some state participation (Table 4), which is around 1600 more than two years previously.

Table 4. Number of Organizations in the Public Sector Registered with the Federal Agency for State Property Management (Rosimushchestvo), its Territorial Agencies and State Property Management Authorities in the Constituent Entities of the Russian Federation in 2012–2016

	Total	SUEs, including fiscal	State institutions	Business entities with over 50% of shares in their authorized capital controlled by	
				the state	public sector companies
As of July 1, 2012	69 251	5 282	58 049	3 593	2 327
As of January 1, 2013	67 003	4 891	56 247	3 501	2 364
As of July 1, 2013.	66 131	4 589	56 100	3 201	2 241
As of January 1, 2014	64 616	4 408	54 699	3 097	2 412
As of July 1, 2014.	63 635	4 236	54 173	2 988	2 238
As of January 11 2016	65 587	4 284	56 693	3 888 (all shares)	n/a
As of July 1, 2016	65 218	3 982	56 893	3 718 (all shares)	n/a

2.

A NEW – PRAGMATIC – APPROACH TO DENATIONALIZATION AND ARGUMENTS FOR SPEEDING UP THE PROCESS

Twenty-plus years of experience implementing denationalization policies in Russia and other countries with transitional economies have shown just how difficult this process can be. Economists have thus come to understand denationalization in a more multidimensional manner.

On the one hand, the numerous long-term studies carried out in various countries, including Russia, demonstrate that industrial enterprises with state and mixed forms of ownership are significantly less efficient than private companies, and that privatization has a positive effect on the level and rate of economic growth.

On the other hand, modern economic theory suggests that there is no "universally viable" form of ownership, and that the form of ownership is far less important in terms of a company's performance than the level of competition and the market structure. What is more, in some cases, privatization of the public sector and natural monopolies can actually harm consumers, leading to the curtailment of innovative programmes. And if the government manages to turn state-owned companies into development institutions, they can use their special status, including financial support from the government, to speed up the rate at which these conservative structures are torn down and thus offer more favourable conditions for high-tech industries.

Accordingly, the current approach to denationalization (privatization) is more ambiguous, while at the same time being more pragmatic. The main features of this approach are:

- The understanding that the effects of privatization may only be felt in the long term, while the speed of privatization depends on the total sum (speed of implementation) of all socio-political and economic reforms (the factor of the institutional environment).

- The emphasis is not on creating a system where state intervention does not exist, but rather on the determining the *interests that the state will suppor*t – at the very least on ensuring a consensus of social interests when implementing socially significant privatization programmes.

- A rethinking of the role of the nation state as a regulator, taking globalization processes and the growing uncertainty of the modern world economy into account.

- The *need to optimize the correlation between the function*s and potential of government intervention, depending on the real capabilities of the state.

- An awareness of the fact that privatization is not an end in and of itself, nor is it a panacea. Rather, it is simply an *instrument within the general framework of state property management.* It does not lead automatically to the emergence of sustainable and viable enterprises, as economic performance depends on competition far more than it does on the form of ownership.

- The relevance of *a comprehensive approach to privatization* – both to selling treasury assets and to reducing (avoiding growth) the participation of major enterprises and banks in which the state has a controlling share in the capital of other business entities.

- The remaining scale and quantity of most public-sector facilities makes it impossible to introduce a new similar system of accelerated mass privatization. The excessive radicalization of approaches levels off the expected benefits and losses. The process of denationalization must be carried out on the basis of the *principle of controlled uniformity of privatization,* which requires an entire complex of preparatory measures and must be implemented in a phased manner.

- The multiplicity of types of public entities call for the development of differentiated models (planning) of privatization and management.

- There are no obvious arguments against (temporarily) keeping a number of major companies in the hands of the state. However, there are arguments in favour of reducing the thresholds of control, establishing equal conditions for competition, making corporate management more transparent and improving its quality.

- The economic effect of privatization (the arrival of a new owner) is impossible if the sector as a whole is not modernized. In turn, the sector cannot be modernized if it is dominated by the state – that is, if the private sector is not expanded.

- The strategic core (systemically important companies) of the economy needs to be defined. The privatization of major companies with state participation is more important than an official, and radical, reduction of the number of public entities as a whole.

- Anachronistic and palliative forms of legal incorporation and uncontrolled non-liquid assets need to be eliminated.

- At the same time, the following arguments in favour of **accelerating the process of denationalization** can be put forward:

- Denationalization is a **global trend** in the world economy. The noticeable growth in privatization deals allows us to see 2012–2016 as the beginning of a new, large-scale wave of privatization that could last for several years.

- The **number of state-owned enterprises in Russia fell in 2010–2016**; however, the level of direct and indirect state participation in the economy, in certain sectors in particular (through major companies, state banks and corporations), is still extremely **high**. Taking the various forms of indirect (intermediate) influence into account gives reason to believe that such influence has actually intensified in a number of sectors, although there is the problem of how to measure the relative share of the government in the economy.

- The **redundancy** of state property for purposes of carrying out state functions.

- The **conditions for fair competition** are not sufficiently developed in sectors in which the state is heavily involved directly and indirectly, and there are few incentives for developing private initiatives.

- The government has limited **incentives to develop (industry specific) regulation** (modernization) while keeping direct instruments of influence.

- Companies with state participation are predominantly oriented towards state support and preferences and, as a rule, **perform worse**. Preferences and administrative leveraging deform the markets.

- Denationalization in various segments of state ownership will not bring in extra revenue. However, it will help **reduce budget expenditures** on the maintenance of superfluous (in terms of state functions and budget overruns) facilities.

- "Deepening" the privatization of major companies with state participation (up to the withdrawing state share altogether) will, on the contrary, help **attract additional**

budget resources (but as a secondary and one-time effect of the denationalization of sectors). However, this possibility is limited.

- Improving the quality of management in the state sector and eliminating potential "windows for corruption" are **limited** by the subjective size of the state sector, the redundancy of assets, the presence of unmanageable and/or crisis facilities, the lack of transparency, poorly defined state interests and the flawed mechanisms for implementing them.

- The quality of the available tools for state property management (primarily unitary enterprises and joint-stock companies) has reached its **objective limit**.

- As a legislator, regulator and direct participant in major companies, the position of the state demonstrates a very real conflict of interests, as well as a number of dualities and contradictions. In practice, this is manifested in the government's policy of double standards towards Russian businesses.

3. KEY RISKS OF DENATIONALIZATION AND PRIORITY GOALS UP TO 2035

The most significant risk in the short term is the possibility of expanding the state (quasi-state) sector against the background of privatization processes – that is, the development of the officially undeclared model of state capitalism formed during the 2000s. Instead of expanding the private sector, attracting competent business owners and non-budgetary funds and improving the competitive environment, only pseudo-privatization can take place. This means the redistribution of assets in the mixed ownership sector and their further consolidation at the level of individual companies and banks with state participation.

The second most important risk is associated with the lack of regulation in individual sectors, which in the past was compensated by the government's direct involvement in the management of certain large companies. When the state gives up ownership it needs other instruments for solving socially significant challenges. But the public interests of the state in such companies is not transparent, which makes it possible to substitute them with vested interest – both departmental and private. The government may strengthen its informal influence on private companies after privatization in cases where the views of the state and the new owners diverge with regard to mutual considerations.

The third risk is the uncertainty of conditions and criteria for the privatization of large companies when attracting investments for their development. The individual nature of such decisions in the future could create prerequisites for discrepancies to arise between the state and business owners in the understanding of their mutual obligations and for the sides to exert various forms of pressure on each other. The financial aspect is just as important. If we abstract away from the various options for the participation of state companies, vertically integrated structures, major companies and banks with state participation (as consumers that indirectly have priority access to the financial resources of the state) in privatization processes, then we are talking primarily about the international financial markets. Here, competition among national governments wishing to implement various privatization projects is once again exceptionally high.

Hence the conclusion that a successful denationalization policy depends on an entire range of decisions connected to the systemic development of the institutional environment, the investment climate and the financial system that is in place in Russia. This means, first of all, restrictions on foreign companies in strategic sectors, guaranteeing property rights and legal enforcement in general and stimulating long-term sources of investment domestically, including through the modernization of the defined contribution pension system, collective investment institutions and stock exchange technologies.

It is also vital that political decisions – certain "presumptions" for actions in this sphere – play a special role in the formation and implementation of a state privatization policy. Such an approach is the result of objectively limited opportunities for assessing the socioeconomic effects, the significant diversity of the state sector and the specific features of various government assets.

There is an administrative risk associated with the insufficient coordination and interaction of the federal executive authorities in the privatization sphere and the management of state property, as well as with the numerous opposing interests. Therefore, the role of various interest (influence) groups with a positive agenda in determining specific measures for implementing political decisions is becoming more important; competition among these groups determines the drift of privatization policy.

The key risks can be summarized as follows:

- the possibility of expanding the state (quasi-state) sector against the background of privatization processes = pseudo-privatization;
- the underdevelopment of regulation in individual sectors, which in the past was compensated by direct government involvement + the non-transparency of public interests with regard to state-owned companies = substitution of state interests with departmental and private interests;
- the vagueness of conditions and criteria for the privatization of major companies when attracting investments for their development = risk of discrepancies in the visions of obligations and state pressure;
- the quality of available state property management tools has reached the limit of its optimization;
- the high level of competition (restrictions) on the international financial markets and the lack of financial resources could set in motion a return to pseudo-privatization (through state-owned companies and banks);

- the dependence on a range of decisions connected to the systemic development of the institutional environment, the investment climate and the financial system;

- the special role of political, rather than legal and regulatory decisions (a system of "presumptions") when preserving outdated forms of incorporation and state-owned entities and when transferring property to different public and legal levels;

- administrative risk = the poor coordination of the federal executive authorities in the privatization sphere and the management of state property, as well as with the numerous opposing interests;

- the lack of coordination and uniform principles at various levels of public and legal ownership (constituent entities of the Russian Federation and municipalities) in the absence of methods for influencing the effectiveness of state property management at these levels.

It is clear that the key problems and risks described above, as well as the need for various solutions with regard to the assets (facilities) that remain in state ownership presuppose the step-by-step implementation of the chosen denationalization strategy.

The proposed priority policy goals for 2018–2024 are:

1. To ensure the stability and systemic nature of the process to reduce the direct involvement of the state in the economy, primarily through the consistent implementation of the principle of the "presumption of the utility" of privatization, the guarantee of the long-term nature of the announced plans, and the a priori preparation of the field of privatization (including the sources of funds).

2. To introduce regulatory restrictions on the expansion of the public sector in the economy, primarily through the formation of an adequate system of prohibitions and abridgements, restricting the purchase of new assets by major companies with state participation, and auditing government holdings and state corporations.

3. To reduce the direct participation of the state in the economy, which primarily affects the depth of privatization of major companies and involves modernizing the sector and replacing direct government control with industry regulation.

4. To introduce a policy of freeing the public sector from small-scale incidental assets: the accelerated liquidation of enterprises that are not engaged in economic activity; a simplified procedure for selling assets with low liquidity; the single-stage privatization of SUEs, bypassing the stage of corporatization; the transfer of individual packages of shares

of subsidiaries and affiliates of vertically integrated structures into the authorized capital of head companies of vertically integrated structures.

5. To improve the quality of public administration in companies with state participation, which should not be reduced solely to the modification of corporate management: it should also include the systematic interests of the state in the strategic core. All the state-owned companies remaining in the core should carry out IPOs, provide quotes for their shares and become public companies.

6. To synchronize federal and regional denationalization policies, moving the presumption of privatization to the level of constituent entities of the Russian Federation and municipalities and monitoring their implementation.

The proposed priority policy goals for 2018–2035 are:

1. To reduce both direct and indirect state presence (the quasi-state sector) on the markets (attracting private investors into subsidiaries and affiliates, with long-term contracts being concluded).

2. To develop financial market instruments and stimulate the participation of institutional investors in the privatization process.

3. To maximize the involvement of unused real estate assets (property and land) in commercial turnover: simplification of procedures, declarative privatization in electronic trading at market prices.

4. To redistribute powers and transfer immovable property not assigned to the balance holders from the federal to other public legal levels.

5. To attract private investments into the social sphere and the services markets, which are occupied by publicly funded institutions, without changing the form of ownership (educational, healthcare, etc.). This can be achieved through the development of concession mechanisms, with relevant long-term state contracts being signed, as well as through the transformation of commercially successful institutions into commercial organizations, etc. (according to the quality of services they offer) and offering concessions that lead to the transfer of such organizations into private ownership.

6. To synchronize denationalization with a reform of the public procurement system (with regard to auditing the selection process of suppliers in state companies , their performance, etc.).

4.

QUALITY OF THE LEGAL AND REGULATORY FRAMEWORK AND AREAS FOR IMPROVEMENT

Throughout the period of validity of the Concept of State Property Management in the Russian Federation Approved by Resolution No. 1024 of the Government of the Russian Federation dated September 9, 1999, the process of optimizing the composition and structure of federal property continued, including through privatization and the redistribution of property between the Russian Federation, the constituent entities of the Russian Federation and municipalities.

A significant capacity was built up in 2010–2016 for making further progress towards the establishment of an effective system for managing state property management.

An important set of changes to the Federal Law on Privatization has been introduced. The amendments include: medium-term planning; the possibility of taking individual decisions at the government level with regard to specific enterprises; transferring the function of seller from the state to legal entities; implementing electronic sales; developing a Dutch auction system; reducing the size of the collateral needed in order to be a buyer; expanding transparency requirements for privatization; and introducing new mechanisms for the privatization of cultural heritage sites. The terms and individual schemes of privatization for 10 largest companies and banks have been developed and the process of preparation and execution of privatization has been activated.

Changes have been introduced to the legislation on state corporations, making the regime for their functioning more rigorous.

Other key documents include:

- The State Programme for Federal Property Management for the Period up to 2018 (Order No. 191-r of the Government of the Russian Federation dated 16.02.2013; Resolution No.

327 of the Government of the Russian Federation dated 15.04.2014; Resolution No. 381-12 of the Government of the Russian Federation dated 31.03.2017);

- The Concept on the Optimization of Property owned by the State Treasury (categories of State Treasury facilities – Order No. 271 dated 25.07.2014; road map – Order No. 488 dated 08.12.2014);

- Forecast plan (programme) for the Privatization of Federal Property for the Period 2014–2016 (Resolution No. 1111-r of the Government of the Russian Federation dated 01.07.2013);

- Forecast plan (programme) for the Privatization of Federal Property and Main Directions of Federal Property Privatization for the Period 2017–2019 (ratified by Resolution No. 227-r of the Government of the Russian Federation dated 08.02.2017);

- The Corporate Governance Code (approved on 13.02.2014 at a meeting of the Government of the Russian Federation, ratified by the Board of Directors of Bank of Russia on 21.03.2014);

- Over 100 specialized regulatory acts on privatization and state property management.

- On the whole, the current legislation **does not require radical innovations.** The regulatory acts adopted in the 2000s on state property management and expanding the capabilities of the Government of the Russian Federation, along with the tightening of the requirements regarding the transparency of privatization procedures, create the necessary formal conditions for accelerating the denationalization processes.

At the same time, the situation that we have arrived at in 2018 requires further work to overcome the following practical problems that remain:

- There are no established and uniformly understood goals of federal property management when determining its structure in terms of performing state functions and solving strategic tasks;

- Lack of transparency of the existing format of the state's participation in the economy resulting from the indirect influence of state-owned enterprises in a number of industries.

- Excessive activity of major state-owned enterprises in the mergers and acquisitions market, which is in conflict with their investment programmes, the development programmes of individual sectors of the economy, and the support of competition.

- The state's position as a regulator and a shareholder in major state-owned enterprises is self-contradictory.

- Lack of transparency and limited access to information and the procedures for protecting the rights of shareholders in state-owned enterprises, which is a problem inherent to the Russian model of corporate governance as a whole.

- State-owned enterprises lack understanding of the corporate toolbox (transparency of preparation and the adoption of managerial decisions in management bodies; strategic and financial planning; organization of procurement activities; other aspects of economic activity).

- Employment policy needs improvement in order to enhance performance management and supervisory bodies in state-owned enterprises.

- Delayed measures to reorganize and rehabilitate public sector organizations that are in an unsatisfactory financial and economic state, and the slow pace at which such organizations are liquidated in the event that their operations are effectively folded.

- The lack of motivation and liability for all participants in the federal property management process, including persons elected to the management bodies of state-owned enterprises.

- The absence of state registration of rights to state-owned immovable property and land plots.

- Insufficient technical base for interaction between management participants, leading to a lack of availability of federal property management services and information transparency about the goals, tasks and results of activities in this area.

- In order to solve these problems, a number of measures on the main areas of state policy in state property management and privatization need to be implemented.[16]

[16] *For obvious reasons, questions regarding the management of the state's material reserves and land use policies (with the exception of land plots that belong to the State Treasury) have been left outside the scope of this review.*

5.

MAIN PROPOSED AREAS AND MEASURES FOR 2018–2024 UNTIL 2035

BLOCK NO. 1. IMPLEMENTING THE SYSTEMIC PRINCIPLE OF "EXPLAIN OR SELL" (TARGET FUNCTION) AS APPLIED TO STATE-OWNED PROPERTY

A basic prerequisite for reducing the public sector's excessive share in the economy and optimizing the management of facilities (property) that are needed in order to carry out the functions of the state and achieve the strategic goals of economic development is to take a complete inventory of state-owned property and define its target function.

A significant amount of work was done in this area from 2012 to 2016 (the State Programme on Managing State Property for the Period up to 2018; Resolution No. 191-r of the Government of the Russian Federation dated 16.02.2013; Resolution No. 327 of the Government of the Russian Federation dated 15.04.2014; Order No. 784 of the Ministry of Economic Development of the Russian Federation dated 26.12.2013).[17] Many problems remain, however:

[17] *The State Programme of the Russian Federation on "Managing State Property" approved by Resolution No. 327 of the Government of the Russian Federation dated 15.04.2014 to replace the State Programme of the same name, which lasted around 14 months, is a concentrated expression of the Russian government's policy at the current stage. Resolution No. 381-12 of the Government of the Russian Federation dated 31.03.2017 introduced new changes to the 2014 State Programme, which included correcting the formal target indicators for the programme's implementation. Nevertheless, from a substantive point of view, the targets for 2024 and 2035 set out in this chapter are based on an assessment of the actual possibility of the programme being implemented.*

- The “administrative resource trap”: the lack of a (reasoned) designated purpose of a given facility in state ownership;

- The lack of political will and arbitration between the federal executive authorities when determining the target functions;

- The “planning trap”: the absence of a target function includes the mechanism of privatization, regardless of the meaningfulness of the decision;

- The burden of excessive assets and the costs to maintain them, as well as the lost profits from their use (the source of corruption risks);

- The lack of clearly defined state property management goals (the transparency of the goals of privatizing or not privatizing specific assets);

- The “political declarations trap”: excluding items from the list of assets to the privatized after the privatization goals and programmes are announced (for example, the withdrawal of the state participation from the non-resource sectors by 2018);

- The revision of privatization plans after they have already been approved.

- The “centralization trap”: the impossibility (in administrative and financial terms) of managing all facilities under state ownership (in the public coffers) in the Russian regions;

The contradiction between the quality of assets and the possibility of privatization.

As we can see from Table 5, a programme for the item-by-item assignment of the target function to public companies and FSUEs has been formally implemented; however, in many cases, this function is not formulated in a meaningful way. For example, the relevant federal executive authorities have not presented proposals for the conversion of the 298 FSUEs assessed (25% of the total number in the register) or have proposed for them to remain as FSUEs, which essentially means that there is no target function. The situation is even more complicated at the regional level.

Table 5. The Principle of "Explain or Sell" at the Federal level (number of "assets" for which the target function has been defined, as a percentage of the total number of assets in the register)

	2014 (fact)	2015 (fact)	2016 (fact)	2018 (Federal Targeted Programme)	2024	2030	2035
For Public companies	61	68	100	100	100	100	100
For FSUEs*	98	100	100	100	100	100	100
For properties in the public coffers of the Russian Federation	10	15	15	30	90	100	100
For Federal Government Agencies	0	0	0	15	90	100	100

In 2018–2024, it is necessary to:

- assign an appropriate target function to each asset and prepare normative documents for it;
- ensure the target function is reflected in a unified accounting and property management system (strategic development of state-owned assets or denationalization, involving assets in commercial turnover, attracting investments and implementing technological development programmes);
- develop road maps (long-term development programmes) for achieving the target function of each individual asset and create a system for monitoring their implementation;
- determine the measures of responsibility and the tools for motivating management entities to implement the decisions (road maps);

BLOCK NO. 2. ACCELERATED PRIVATIZATION AND THE CONDITIONS FOR EXPANDING PRIVATE INITIATIVES

Despite the considerable improvement in the legislative framework in 2010–2016, the legislation on privatization is not focused on attracting investments, including small and medium business, into the development of assets that have been alienated from state ownership (an objective problem of asset quality). Privatization plans are formed according to the residual principle (the principle of the presumption of preservation, rather than the presumption of privatization). The existing mechanisms of effective sales are insufficient, as different tools are required for different asset classes, depending on the market conditions. The new sales technologies and information support mechanisms for managing state property need to be systemized at all public and legal levels.

The most important general measures that can be taken in 2018–2024 are:

- complicating the conditions for keeping companies in the public sector: decisions on where or not a given company should remain in the public sector should be made by the President of the Russian Federation; decisions on privatization should be made at various levels of the hierarchy of the executive branch depending on the size and importance of the company (including its social importance), as well as on its assets and the role it plays in the basic functions of the public sector;

- getting rid of restrictions that are no longer relevant on the privatization of state property established by Decree of the President of the Russian Federation No. 2284 and other regulatory acts, combined with their partial transfer to the law on privatization;

- introducing changes to the Federal Law on Privatization to help attract "high profile" strategic investors by placing restrictions on public companies in the period following privatization;

- diversifying methods depending on the attractiveness of assets and the industry to which they belong (open financial market, selling to strategic investors, managerial buyouts) and the public expert evaluation of existing options;

- defining, through legislation, the long-term restrictions on the participation of foreign investors in individual sectors and large companies.

It is necessary to introduce methods to accelerate the privatization of minority and medium-sized properties and involve assets belonging to the state in commercial circulation:

- Declarative privatization of non-major assets, which involves the approval and public placement of a single electronic list of immovable properties that are at least partly funded using funds from the public coffers, property that makes up the non-core assets of public companies and their subsidiaries and affiliates, the property rights to SUEs and publicly funded national institutions that are not used for their intended purpose by them or for their main activity, with the possibility for an unlimited number of persons to bid for and buy back the relevant assets.

- Simplification of the procedure for selling certain categories of objects without including them in the privatization programme, that is, at the level of agencies, with the mandatory inclusion of information about it in the consolidated report on the results of privatization prepared by the government of the Russian Federation.

A refusal to use the mechanism of market assessment of privatized real estate objects in open electronic trading and the lack of encumbrances of the real estate objects in question.

To accelerate the process of removing non-liquid assets from state property and rehabilitating ineffective enterprises, the following new instruments must be put into use:

- Clearing the register of minority packages of shares of subsidiaries and affiliates of vertically integrated structures: removing the legal restriction (introducing amendments to the Civil Code of the Russian Federation) and transferring minority shares of companies that are subsidiaries and affiliates of previously established vertically integrated structures to the ownership of the head companies of the relevant vertically integrated structures.

- Simplifying liquidation procedures for SUEs that do not conduct financial and economic activities and excluding them from the Unified State Register of Legal Entities, regardless of whether or not they have tax or levies arrears.

- With regard to troubled companies that are going through bankruptcy procedures, it is necessary to unify (update the provisions of) the Law on Bankruptcy and the Law on Privatization to allow the sale of 100% of the shares and all credit debt to a single buyer at a single tender.

- Simplification of the sale of minority shares (less than 25%) in minor companies by allowing for the direct repurchase of shares by the joint-stock companies themselves or another shareholders, without evaluation, at face value. In the event that such companies do not exercise this right, the shares should be placed for open electronic trade at an initial price equal to the face value.

Table 6. Privatization (Effective Sales). Approximate Results.

	2016 (actual)	2018 (Federal Targeted Programme)	2024	2030	2035
Number of FSUEs with the right of economic management	1 247	To 0/1 000	0/400	0	0
Reducing the number of joint-stock companies and the share of joint-stock companies with state participation (to be fixed in a special list + a list of strategic enterprises)*	1 704	50%	25%	10%	Kept as part of the strategic core: up to 50 joint-stock companies
("golden share"), number	43	До 0	0	0	0
Joint-stock companies taken into account by the by the state property management authorities in the Russian Federation*	2 424	50%	25%	10%	Kept as part of the strategic core: up to 150 joint-stock companies
SUEs taken into account by the by the state property management authorities in the Russian Federation	4 200	2 500	500	0	0
Public transactions for the sale of large facilities that are attractive to investors	**At least four transactions per year**				
Foreign investors in major transactions	**At least two transactions per year**				

** including new joint-stock companies established in the process of making SUEs public*

BLOCK NO. 3. THE STRATEGIC CORE: TRANSPARENCY, EFFECTIVENESS, MANAGEMENT

The state sector (major companies), which for political and strategic considerations, and in order to implement the general priorities of Russia's socioeconomic policy, will be kept at a predetermined size until 2035, should nevertheless generate economic growth, demonstrate its effectiveness (with regard to the established – for example, global competitiveness) and contribute to technological and innovative development. On the one hand, it is necessary to strengthen the market mechanisms for managing the strategic core. On the other hand, we need a well-thought-out system of restrictions to mitigate the negative influence that major state-owned companies have on the market competitive mechanisms in the economy.

A short list of companies that are closed to privatization should be drawn up as early as 2018. All enterprises not included in the list can be considered for inclusion in privatization plans.

It would be wise to present this list in the form of three successively narrowing groups – short terms (2019), medium term (2024) and long term (2035). The list could also set the maximum acceptable level of state participation in the capital of these companies.

It is necessary to prepare detailed justifications of why each of the companies in the list needs to retain direct state participation in its operations. These justifications should be made public and represent goals and objectives that are significant to the socioeconomic development of the Russian Federation (as well as instruments for implementing them with the help of the state) and which cannot be achieved by other means (by improving regulation, developing private business, etc.).

At the same time, the following steps need to be taken:

- The special and strategic lists need to be combined; a schedule needs to be drawn up for reducing the role of the government in large and major companies (retaining blocking shares only) to between 50 and 100 companies (the strategic core).

- An IPO needs to be held for the joint-stock companies that remain 100% of shares in the state sector. Each of these joint-stock companies should become public and have stock quotes in its own shares.

- The threshold for majority control of major companies should be reduced to no more than 50% + one share.

- As part of the development of the schedule for the government's exit from the capital of these companies, the acceptable criteria and thresholds for the participation of the state as a financial investor need to be determined (with the modification of control mechanisms).

- The use of the special right ("golden share") should be removed.

- Concepts for the development of regulation in individual sectors (infrastructure, banking, defence) to ensure the performance of socially significant tasks while reducing (replacing) the direct involvement of the state need to be developed.

- Legislative consolidation of the acceptable methods of control following the removal of the government's direct participation in companies needs to be developed (in the form of special federal laws, agreements, etc.).

- Monitoring mechanisms for the development and implementation of the long-term strategies and/or plans of all strategic core companies to improve the quality of the services they offered (standard) need to be established.

- Management motivations need to be tied to the results of long-term development programmes.

- The procedures for carrying out a public independent assessment of the activities of the strategic core companies, including in the course of implementing long-term development programmes need to be determined.

In terms of dividend policy, the following measures need to be taken with regard to continued movement towards the full transition to International Financial Reporting Standards (IFRS):

- An algorithm for permissible deviation from the general procedure for paying out dividends needs to be developed.

- When determining the strategic core companies that are to remain under state ownership, the size of dividends also needs to be established, depending on the return on net profit reinvestment versus WACC (Weighted Average Cost of Capital) for each company up to 2035.

As for corporate governance, such problems as protecting the rights of minority shareholders (which is critical for attracting financial investors), insufficient rights of access to information, "departmental" and "humanitarian" quality management factors, and poor motivation and lack of responsibility among all the participants in the management process, including persons elected to the management bodies of state-owned enterprises, remain. In this respect, the following decisions would be useful:

Improvement when determining the strategic core (typology and control thresholds) of companies under state ownership of the system for managing these companies towards a state in which more detailed analysis is carried out and the state is more deeply involved in the adoption of management decisions (the structure of the board of directors, the effectiveness of directives, the formulation of the dividend policy).

- Implementing mechanisms and procedures for appointing top managers in state-owned enterprises on the basis of open competition and selection.

- Introduction of the principle of mandatory audit firm rotation (no more than three consecutive years for a single audit firm or its subsidiaries, affiliates and/or head structures or other affiliated entities).

- Remunerating public officials elected to the executive boards of state companies, while at the same time giving them greater responsibilities and setting the minimum qualification requirements and rotation mechanisms;

- Introduction of measures to enhance the role and status of independent directors in state-owned enterprises while increasing liability.

BLOCK NO. 4. MANAGEMENT OF SMALL STATE-OWNED ENTITIES AND OPTIMIZING THEIR STRUCTURE

Policy in this area should be aimed at rejecting the use of anachronistic (ineffective) organizational and legal forms and non-transparent management tools and creating a system of incentives for all participants in the management process. The following steps are necessary first and foremost:

- Minimizing the amount of property belonging to the state treasury; restoring state treasury property to the proper condition (financing) – through both privatization and involving these facilities in commercial turnover (Table 7).

- Adopting a federal law that removes SUEs as an institution. This would involve the introduction of a transitional period during which the norms of the Federal Law on Joint-Stock Companies are applied to SUEs and the property of these companies is transferred on the right of free use, with the possibility to register the ownership rights of the joint-stock company to such property (except for the property limited in turnover) during the transitional period.

- Privatizing SUEs in a single stage: transforming them into private limited companies with the simultaneous sale of 100% of the shares in single-decision trading.

- Introducing provisions for the mandatory application of measures to ensure that funds are used for their intended purpose when making investments in the authorized capital of head companies of virtually integrated structures.

- Introducing changes to the Budget Code of the Russian Federation that provide for the following when budgetary investments need to be made into subsidiary companies of vertically integrated structures: 1) the possibility of such investments being allocated to the head companies of the relevant vertically integrated structures only (in order to eliminate the practice of the state continually purchasing minority shares in subsidiaries and affiliates); and 2) the targeted nature of allocated investments and the possibility of monitoring their targeted use.

- Developing procedures for seizing the property of enterprises and institutions after the owner has established that they are not being used for their intended purpose or are not being used at all.

- Introducing mechanisms for holding managers accountable, financially and otherwise, for damage caused to property: disqualification; increasing fines under the Code of the Russian Federation on Administrative Offenses; express reference in the law and employment contracts to the need to recover lost profits; introduction of a mechanism of recourse liability for actions that cause damage to the enterprise as established by a court of law in the course of criminal procedures.

- Introducing a federal law with a provision allowing for successful publicly funded institutions to go public.

- Adopting a federal law that provides for the use of quasi-concession mechanisms for attracting investments into publicly funded institutions: transferring publicly funded institutions to entities holding a license to operate them, or selling publicly funded institutions to be immediately transformed into commercial organizations upon the signing of a long-term state contract for the acquisition of the relevant public services.

- Developing mechanisms for financing investments in assets under privatization for small and medium-sized businesses (loans for the purchase of property belonging to the state, using the relevant property as collateral [MBO/LBO transactions], as well as under instalment plans).

A significant area of the general strategy for optimizing the management of state-owned property is the synchronization of federal and regional policies, which involves the following components:

- A full inventory of objects (shares, land, real estate, etc.) under the jurisdiction of the constituent entities of the Russian Federation and municipalities, and the formation of a unified register.
- The introduction of amendments to the Budget Code of the Russian Federation that align the mechanism for providing transfers and subsidies for the constituent entities of the Russian Federation and municipalities with the achievement of tasks related to the privatization of non-core assets for the state.
- The redistribution of powers and transfer of immovable property that has not been transferred to the owner or operator (the treasury) from the federal to other legal public levels, without preliminary cadastral registration and registration of rights, but subject to subsequent privatization.
- The introduction of unified mechanisms of long-term contracting for co-financing (private investments) with the state registration of publicly funded institutions and a reduction in the share of budgetary investments.

Table 7. Management (Effective State Ownership): Provisional Results at the Federal Level

	01.12.2015	2018 (Federal Targeted Programme)	2024	2030	2035
Reducing the number of facilities owned by the treasury (except land plots): privatization; transfer to other government levels; transfer to other rights holders	Actual (number): 1 524 701	By 11% (per programme)	By 20%	By 50%	By 99%
Increasing the size of land plots owned by the Russian Federation Treasury that are involved in commercial turnover	Actual (number): 312,832 land plots, 631,178,344 hectares	By 30%	By 40%	By 50%	By 60%

BLOCK NO. 5. LIMITING THE GROWTH OF THE PUBLIC SECTOR IN THE ECONOMY AND INCREASING ITS WEIGHT IN INDIVIDUAL SECTORS

The problem of the quantitative and qualitative growth of the public sector can be solved (in addition to the primary motivation – political will) outside of privatization processes and introducing mechanisms for monitoring the activity of companies that remain in the strategic core as well. The introduction of a moratorium on the establishment of new state corporations and companies, as well as the ban on the formation on palliative (replacement) legal forms of incorporation, may well be politically motivated, but it would be advisable to introduce a number of restrictions and requirements for companies that are already under direct or indirect state ownership:

- Restrictions on state-owned enterprises setting up business entities in sectors where similar goods/work/services could be provided by private companies.

- Bans on the purchase of non-core assets by companies with more than 50% state participation.

- Monitoring the requirements for companies with more than 50% state participation on offering and selling non-core assets.

- Uniform regulations on the alienation of property belonging to major companies with state participation, including the multi-stage transfer of assets among subjects under state control.

- Diversifying the non-core assets of state-owned enterprises into groups depending on their value. With regard to medium-sized assets, this should entail confirmation of a standard sales regulation that details all the rules and procedures, to the extent of a single site or information centre. For major companies, this would involve increasing the level of decision-making on the approval of the terms of transactions.

- The right to veto (delaying the adoption of a decision) for independent directors if the terms of the transaction on alienating property are not competitive and the purchase agreement is associated with the expansion of non-core assets.

- Bans on the participation (as buyers) in the privatization process of subsidiary, holding and affiliate companies and organizations (banks) with more than 25% state participation.

- Bans on companies with more than 50% state participation, state corporations (as well as their subsidiaries and affiliates) from purchasing shares in private companies.

BLOCK NO. 6. ANALYSIS AND MEASURES BROKEN DOWN BY SECTOR

Due to the obvious sectoral imbalance in the Russian economy towards energy and natural resources, the general (average) estimate of the scale to which the state sector is involved in the economy can lead to a distorted view of the overall picture if it is not accompanied by a sectoral analysis.

Appendix 1 provides a sectoral analysis of Russian companies by total revenue, which should provide a more accurate evaluation of the level of state participation in the Russian economy.[18] The top 100 companies in each sector of the economy in terms of annual revenues were analysed, and the share of the total revenue of companies controlled by the state was estimated. The latter includes companies that are indirectly controlled by the state (all levels of ownership were taken into account if they entailed control over subsidiary companies). For the purposes of the study, companies in which the state owns less than 50% + 1 share do not count as being controlled by the state.

The calculations reveal that, in terms of the total revenues of major state-owned enterprises, the share of state participation in the economy is around 40% (excluding publicly financed institutions). However, this indicator can vary wildly depending on the sector. The reality is that the share of the total revenue of state-owned companies in the top 100 companies of four sectors (energy, transport, extraction of mineral resources and finance) is close to, or exceeds, 50%. Meanwhile, the top 100 companies in these four sectors (that is, a total of 400 companies) make up over 30% of the total revenue of all Russian companies *(see Table 8)*. These ratios speak to the overwhelmingly high level of state participation in the Russian economy.

- However, two essential features need to be mentioned here: The social sector, which is made up primarily of publicly funded institutions, has been left of this sectoral analysis.

- The share of state participation in manufacturing and communications is high.

[18] The annual revenue figures for 2015 were based on the unconsolidated annual reporting provided by companies according to Russian Accounting Standards. Using unconsolidated data made it possible to place subsidiaries of large holding companies in the correct category (for example, subsidiaries of Sberbank of Russia, Russian Railways, etc., which provide IT services are placed in the IT category; similarly, subsidiaries providing education services are placed in the Education category, and so on.

Table 8. Sectoral Structure of Companies by Total Revenue and Level of State Participation

Sector	Level of state participation (share of revenue of state companies in the revenue of the top 100 companies in the given industry)
Transport	83,0%
Energy	70,9%
Extraction of mineral resources	70,0%
Finance and insurance	46,8%
Utilities	31,9%
Machinery, automotive industry	30,9%
Communications, media	22,7%
Construction and construction materials	18,4%
Commercial real estate	15,9%
Education*	11,8%
Healthcare*	11,5%
Chemical industry	9,3%
Consultancy and legal services, security	8,5%
Hotel and catering services	6,7%
Other**	4,9%
Metallurgy, metal ware, mining of metallic ores	4,4%
Culture, art, sport and lotteries*	3,5%
Pharmaceuticals	2,6%
Wood and wood processing industry	1,3%
Trade	1,1%
Agriculture and the food industry	1,0%
Light industry	0,7%

** Excluding publicly funded institutions*

*** Including incorrectly designated types of economic activity that, strictly speaking, belong to*

Appendixes

Appendix 1.
Assessment of the State's Share in the Economy (excluding publicly financed institutions)

Sector	Total revenue of the top 10,000 companies (billion roubles)	Total revenue of the top 100 companies (billion roubles)	Concentration (share of revenue of the top 100 companies in the total revenue of the top 10,000 companies)	Total revenue of state-owned companies in the top 100 companies by sector				Share of the total revenue of state-owned companies (of those in the top 100) in the total revenue of the top 100 companies in the sector
				Companies under the control of the Russian Federation (billion roubles)	Companies under the control of the constituent entities of the Russian Federation (billion roubles)	Companies under the control of municipalities (billion roubles)	TOTAL state companies (billion roubles)	
Fisheries					–	–	–	0,0%
Wood and wood processing industry	224	107	48%	0,4	2,5	–	2,9	2,7%
Crop and livestock production	2 527	763	30%	16,3	14,2	–	30,5	4,0%
Coal mining	870	830	95%	5,2	–	–	5,2	0,6%
Crude oil and natural gas production	26 760	22 819	85%	16 978,3	–	–	16 978,3	74,4%
Metal ore extraction	1 109	999	90%	1,5	–	–	1,5	0,2%
Extraction of other minerals	546	442	81%	195,3	0,5	0,7	196,6	44,4%
Mineral extraction – services	1 292	1 031	80%	410,4	–	–	410,4	39,8%
Manufacture of food products	4 931	2 036	41%	–	–	–	–	0,0%
Beverage production	787	637	81%	8,5	13,8	–	22,4	3,5%
Manufacture and sale of tobacco products	1 363	1 362	100%	–	–	–	–	0,0%
Textile production	197	120	61%	1,4	–	–	1,4	1,2%
Clothes manufacturing	220	126	57%	0,5	–	–	0,5	0,4%
Leather industry	74	60	81%	0,3	–	–	0,3	0,5%
Paper manufacturing	517	394	76%	–	–	–	–	0,0%
Wood processing	513	282	55%	4,7	1,5	–	6,2	2,2%
Printing	291	159	55%	4,5	0,6	–	5,1	3,2%
Production of petroleum products	269	125	46%	–	–	–	–	0%

Sector	Total revenue of the top 10,000 companies (billion roubles)	Total revenue of the top 100 companies (billion roubles)	Concentration (share of revenue of the top 100 companies in the total revenue of the top 10,000 companies)	Total revenue of state-owned companies in the top 100 companies by sector				Share of the total revenue of state-owned companies (of those in the top 100) in the total revenue of the top 100 companies in the sector
				Companies under the control of the Russian Federation (billion roubles)	Companies under the control of the constituent entities of the Russian Federation (billion roubles)	Companies under the control of municipalities (billion roubles)	TOTAL state companies (billion roubles)	
Chemical industry	2 941	2 913	99%	389,7	–	–	389,7	13,4%
Manufacture of rubber and plastics	2 410	1 857	77%	98,4	–	–	98,4	5,3%
Pharmaceuticals (production and sale)	1 015	455	45%	–	–	–	–	0,0%
Manufacture of cement, glass and other construction materials	2 339	1 683	72%	5,8	37,4	–	43,2	2,6%
Metallurgy	1 467	503	34%	20,9	–	–	20,9	4,2%
Manufacture of metal products	4 655	4 271	92%	168,5	66,2	–	234,6	5,5%
Mechanical engineering, electronics, optics and electrical equipment	1 316	459	35%	17,1	–	–	17,1	3,7%
Manufacture and sale of automobiles	4 006	1 803	45%	1 002,8	–	–	1 002,8	55,6%
Manufacture of other finished products	2 552	2 328	91%	334,0	–	–	334,0	14,3%
Repair and installation of machines and equipment	257	166	65%	14,5	–	–	14,5	8,7%
Supplying electricity, gas and steam.	732	313	43%	65,5	5,7	–	71,1	22,7%
Supplying and disposing of water	7 651	5 044	66%	3 394,6	183	–	3 577,6	70,9%
Recycling secondary raw materials, waste, etc.	402	246	61%	–	106,6	71,9	178,5	72,6%
Construction	753	385	51%	20,5	2,5	–	22,9	6%
Trade	10 118	2 881	28%	495,3	106,4	–	601,7	20,9%
Transport and storage	31 122	8 805	28%	97,7	–	–	97,7	1,1%
Hotel and catering services	10 718	6 731	63%	5 405,7	180,2	–	5 585,9	83,0%
Information and communications, media	1 087	473	43%	16,8	12,0	2,9	31,7	6,7%

Sector	Total revenue of the top 10,000 companies (billion roubles)	Total revenue of the top 100 companies (billion roubles)	Concentration (share of revenue of the top 100 companies in the total revenue of the top 10,000 companies)	Total revenue of state-owned companies in the top 100 companies by sector				Share of the total revenue of state-owned companies (of those in the top 100) in the total revenue of the top 100 companies in the sector
				Companies under the control of the Russian Federation (billion roubles)	Companies under the control of the constituent entities of the Russian Federation (billion roubles)	Companies under the control of municipalities (billion roubles)	TOTAL state companies (billion roubles)	
	3 954	2 447	62%	547,9	7,9	–	555,8	22,7%
Finance and insurance	15 593	13 574	87%	6 348,8	–	–	6 348,8	46,8%
	2 593	550	21%	53,5	21,6	12,6	87,8	15,9%
Commercial real estate	2 708	447	17%	34,1	3,9	–	38,0	8,5%
Consultancy, legal and other services, security	139	40	29%	4,5	–	0,3	4,8	11,8%
Education*	591	191	32%	8,3	13,6	–	22,0	11,5%
Healthcare*	286	148	52%	3,3	1,8	–	5,1	3,5%
Culture, art, sport and lotteries*	5 640	2 034	36%	100,4	–	–	100,4	4,9%
Other**	**159 866**	**93 279**	**58%**	**36 276**	**782**	**88**	**37 146**	**39,8%**
TOTAL								

** Excluding publicly funded institutions*

*** Including incorrectly designated types of economic activity that, strictly speaking, belong to other groups*

Appendix 2.
State Strategies for Companies in Various Sectors

Sector	Degree of state participation (share of the revenues of state companies in the revenue of the top 100 companies in the industry)	Global strategy for state participation	Clearing retained companies of core and non-core assets, including the sale of contractors, suppliers and consumers, with their preliminary split (separation) and signing of long-term contracts	Restructuring retained companies, simplifying the ownership structure of subsidiaries and affiliates	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Optimization, increasing the transparency and strengthening control over the allocation of budgetary investments to state-owned companies	Concession and quasi-concession agreements	Improving dividend policy	A long-term development programme for each company – not as an internal document, but as an interconnected plan of action for the company and the state*	Strengthening the role of independent directors, with the gradual phasing out of the directive mechanism
Transport	Restructuring retained companies, simplifying the ownership structure of subsidiaries and affiliates	Partial implementation	Yes	Yes	Yes		*	Yes	Yes	Yes	Yes
Energy	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Partial implementation	Yes	Yes	Yes				Yes	Yes	Yes
Extraction of mineral resources	70,0%	Partial implementation	Yes	Yes	Yes				Yes	Yes	Yes
Finance and insurance	Privatization, with encumbrances attached to the new owner	Partial implementation	Yes	Yes	Yes				Yes	Yes	Yes
Municipal services	31,9%	Partial implementation	Yes	Yes	Yes				Yes	Yes	Yes
Mechanical engineering, automotive industry	Optimization, increasing the transparency and strengthening control over the allocation of budgetary investments to state-owned companies	Full implementation, except for the military-industrial complex	Yes	Yes	Yes		Yes		Yes	Yes	Yes

Sector	Degree of state participation (share of the revenues of state companies in the revenue of the top 100 companies in the industry)	Global strategy for state participation	Clearing retained companies of core and non-core assets, including the sale of contractors, suppliers and consumers, with their preliminary split (separation) and signing of long-term contracts	Restructuring retained companies, simplifying the ownership structure of subsidiaries and affiliates	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Optimization, increasing the transparency and strengthening control over the allocation of budgetary investments to state-owned companies	Concession and quasi-concession agreements	Improving dividend policy	A long-term development programme for each company – not as an internal document, but as an interconnected plan of action for the company and the state*	Strengthening the role of independent directors, with the gradual phasing out of the directive mechanism
Information and communications, media	22,7%	Full implementation									
Construction and construction materials	Concession and quasi-concession agreements	Full implementation	A long-term development programme for each company – not as an internal document, but as an interconnected plan of action for the company and the state								
Commercial real estate	Strengthening the role of independent directors, with the gradual phasing out of the directive mechanism	Full implementation									
Education**	11,8%	Partial implementation				Yes		Yes			
Healthcare**	11,5%	Partial implementation				Yes		Yes			
Chemical industry	9,3%	Full implementation									
Consultancy and legal services, security	8,5%	Full implementation									
Hotel and catering services	6,7%	Full implementation									
Other***	4,9%	Full implementation									
Metallurgy, metal ware, mining of metallic ores	4,4%	Full implementation									

Sector	Degree of state participation (share of the revenues of state companies in the revenue of the top 100 companies in the industry)	Global strategy for state participation	Clearing retained companies of core and non-core assets, including the sale of contractors, suppliers and consumers, with their preliminary split (separation) and signing of long-term contracts	Restructuring retained companies, simplifying the ownership structure of subsidiaries and affiliates	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Holding IPOs offering 100% of shares in joint-stock companies that remain in the strategic core	Optimization, increasing the transparency and strengthening control over the allocation of budgetary investments to state-owned companies	Concession and quasi-concession agreements	Improving dividend policy	A long-term development programme for each company – not as an internal document, but as an interconnected plan of action for the company and the state*	Strengthening the role of independent directors, with the gradual phasing out of the directive mechanism
Culture, art, sport and lotteries**	3,5%	Partial implementation				Yes		Yes		Yes	Yes
Pharmaceuticals	2,6%	Full implementation									
Wood and wood processing industry	1,3%	Full implementation									
Trade	1,1%	Full implementation									
Agriculture and the food industry	1,0%	Full implementation									
Light industry	0,7%	Full implementation									

** Strengthening the role of long-term development programmes: standardization of the long-term development programme format; detailed financial models and plans; linking the parameters of a flexible dividend policy to long-term development programmes; payments to management and members of the board of directors; individual responsibility for KPI, including responsibility of the regulatory bodies.*
*** Excluding publicly funded institutions*
**** Including incorrectly designated types of economic activity that, strictly speaking, belong to other groups*

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