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AUDIT OF MANAGEMENT EFFICIENCY OF THE STATE BLOCKS OF SHARES.

As a result of property transformation in the Russian Federation the number of privatised enterprises now reaches almost 130 thousand. It constitutes over 66% of total number of the state enterprises existing in the beginning of privatisation. The privatised enterprises have generated a basis for private sector of economy.

At the same time the state still owns 4407 blocks of shares.

In 90 joint-stock companies - 100 % of the charter capital;

In 646 joint-stock companies - more than 50 % of the charter capital;

In 1401 joint-stock companies - from 25% up to 50% of the charter capital;

In 2270 joint-stock companies - less than 25 %

In 750 joint-stock companies it keeps so-called «Golden Share»).

The structure of the federal budget incomes from property has undergone a number of qualitative changes. During the last few years the share of incomes from renewed sources - dividends' the lease, shares in the profit of the state enterprises - has grown by approximately 3% in 1997 and by 74 % in the year 2001. As a result, the share of incomes from privatisation of federal property was reduced from 97 % down to 26%.

Dividends on state blocks of shares have increased by 4,8 times. Total capitalization of the largest Russian companies was reduced by almost three times, but the net profit after the taxation IRIS increased by 1,1 times.

The increase of weight of the incomes received from the renewed sources shows the positive tendency in the Russian economy and characterizes the stable federal property productivity growth trend.

At the same time, privatisation, which provides inflow of budget incomes outside of tax collections, objectively reduces base of renewed income sources at the expense of reduction of collections on dividends.

The fact, that according to information from Accounting Chamber state receives dividends only on 600 blocks of shares from existing 4400, this causes some serious concerns.

It is indicative, that 10 companies provide about 90 percents from the total amount of the dividends received by the federal budget.

The companies with the state participation provide considerably smaller share from their net profit for payment on dividends in comparison with completely privatised companies. For example, private oil companies in the year 2001 have provided between 15 and 23 percents of there net profits on payment of dividends. The largest companies

with a state participation have provided on the average about 8 percents of their net profit payment of dividends. That testifies to the weak control on the part of the state over distribution and use of the profit of the given enterprises.

On the basis of these facts, the Accounting Chamber offers to the Government of Russian Federation to ensure the dividend planning. In those joint-stock companies where the Russian Federation has control packet of shares, boards of state representatives should annually.

- Approve and correct long-term investment programs of companies;
- Define the minimum share of a net profit used on payment of dividends.

The net profit is essential, but not a sufficient parameter of operational efficiency of such enterprises. Therefore in Russia alongside with net profit methods of corporate efficiency estimation there is another method, based on monitoring of the trend in proceeds from realization and capitalisation of the companies.

Monitoring the parameters of financial-economic activities allows to make the reasonable decisions on providing the most effective utilization of the federal property.

One of such mechanisms meant to increase the inflow of dividends in the federal budget is maintaining the control over the founders' activities and distribution of the profit of affiliated and dependent companies of the companies with a state participation. The affiliates, which quite often are established with direct participation of the top management of head companies, accumulate the financial resources from the activities of the latter. Distribution of their profit as was discovered by the Accounting Chamber of the Russian Federation, is realized not by proprietors, nor by state representatives, but by the management of head companies.

If the proprietor does not collect the profits it leads to reduction of a market value of state assets with all following consequences. Including the loss by the federal budget of a significant share of dividends.

Therefore the Accounting Chamber suggests to provide in the charters of joint-stock companies norms toughening control of the shareholders over the founders' activity. Board of directors of the head companies should alone realize the profit distribution of the associated companies.

It is necessary to transform so-called vertically integrated holding companies to the uniform share, it has to be done with the purposes of assets consolidation and significant strengthening of the control on the part of the state over the assets movement.

Besides, in order to increase the receipt of dividends in the federal budget it seems necessary to prohibit illegal reduction of the state share in charter capitals of joint-stock companies in a result of additional emissions of the shares.

For example, after the audit of privatisation conducted in one of largest Russian insurance companies, conducted by the Accounting Chamber it was established, that in defiance of the legislation there was a reduction of the state share in its charter capital from 30 down to almost 3 percents. In the result the state have not received more than 1,5 million US dollars in dividends, and the block of shares by virtue of loss of investment appeal is not sold even until this day.

The structure of packages of shares owned by the federal government still influences the structure of their privatisation. The analysis of sales of the packages of shares shows that more than 60% of the transactions are conducted with the packages less than 25% from charter capital. By this the management in the state sector of economics undergoes the stage of perfection.

At the same time, government does not provide increase share in charter capitals of strategically significant and liquid enterprises where the state participation varies from 15 up to 24 percents, at the expense of a part of incomes received from sale of federal property. In case of sale of the given blocks of shares that will ensure higher incomes, or higher level of dividends inflow in the budget.

In the latest years, incomes from privatisation of federal property were considered as the internal source of financing the budget deficiencies of the Russian Federation or were used for accomplishment of the payments to reduce the liabilities of the Russian Federation.

In turn, the accounting chamber believes it is expedient not use incomes from privatisation of the state-owned property for the financing of current budget expenditures, but to use them in stabilization fund and for state investments. And also in the urgent cases they have to be used for the increase of the state share in charter capitals of the strategic enterprises with the purposes to improve the efficiency of their management and receiving of additional non-tax incomes in the federal budget. That by the way does not exclude a possibility of a future effective privatisation of similar state assets.

The new law on privatisation expands, the possibilities, of an improvement in the efficiency of privatisation audit. It provides the big openness and a transparency of privatisation procedures. Establishes clear distribution of authorities of the President of the Russian Federation, Federal Assembly of the Russian Federation and Government of the Russian Federation.

The Parliament takes an important place in the Russian laws.

First, privatisation of natural monopolies (electric power industry, gas extraction, railway transport) is only possible on the basis of the federal law. Second, the Government of the Russian Federation on annual basis provides reports to the Parliament on results of conducted privatisation.

The President of the Russian Federation approves the list of the strategic enterprises and the joint-stock companies important for good safety of the state, protection of rights and legitimate interests of citizens of Russia and defines a possibility of their privatisation.

The significant part of state blocks of shares was not sold due to low investment appeal. The methods of privatisation of a property with low liquidity were therefore

essentially expanded. Thereby there is also a real possibility of participation in privatisation of a middle and small business, which has no large "starting capital".

The law provides the following new methods of privatisation:

- Sale of property by the public offer

(if is used only in a case if auction was not held due to absence of the buyer.

The initial price after the period determined and indicated in the announcement is reduced by a certain amount down to the minimum established (the cut off price, which may not be less than 50% initial. The first one to turn for the offer will be considered a buyer. (it is known in the world as "Dutch Auction"). It provides realisation of a property with low liquidity, reduces costs of organization of repeated tenders, reveals real cost of property);

- Sale of property without the announcement cut of the price.

(if is used only in case if sale by the public offer with absence of the buyer was not conducted. The initial price is not announced. The one who offers larger price or the one who makes the first offer become a buyer. Especially, a good approach for non liquid objects of privatisation (objects of the uncompleted construction), for which there is no demand and whose sale is only possible in a result of offers from potential buyers on the price of the object of privatisation);

- Sale of shares of the open joint-stock company by results of confidential management

(the agreement on sale of shares is concluded at the same time with the agreement on confidential management, which, in turn is concluded by results of competition. Shares are sold only at fulfilment of terms and conditions of a contract on confidential management after the quarterly control of their observance. Stimulates the confidential manager to fulfil the obligations taken by him to raise the value of shares, develop the production, reduce costs for management of the state-owned property);

- Sale of the shares of joint-stock companies owned by state outside of the territory of the Russian Federation

(grants a possibility to sell the shares of the Russian joint-stock companies by means of issue and accommodation of Depositary Receipts. Expands the database of privatised property buyers, attracts in the federal budget financial means of non-residents, improves "image" of the enterprises of the Russian Federation on the international stock markets);

- Sale of shares through the trade organizer on a home securities market.

At the same time the law allows to reduce the subjectivity of an approach at selection of a privatisation method, the Accounting Chamber repeatedly insisted on this. In relation to federal property of a high liquidity it is better to use the auction method of sale, which provides the greatest budget effect.

The law presents the obligatory order of the land lots' privatisation, together with the property of the enterprises, and also establishes the order of sale of the land lots to proprietors of the previously privatised buildings, structures and enterprises.

The law also provides obligatory inventory and auditor check. In connection with this, in order to maximize the incomes of the federal budget by sale of the federal property it is expedient to provide realization of the pro-sale audit of the federal property objects by Accounting Chamber. First of all, realization of audit of the current condition of state assets and validity of the initial sale price for the objects of the federal property.

Therefore, in our opinion, sale of blocks of shares of the largest and strategically significant companies may be carried out only if there is the conclusion made by Accounting Chamber of the Russian Federation about conducted pro-selling preparation and examinations of the initial price of sale.

Another novelty is that the sale price of the property is not based on two estimations: "normative" and "market". Initially in the process of the decision making about conditions of privatisation (terms, methods etc.) the state establishes a standard price for the property, which is the lowest price possible for disposal of this property. Immediately before the announcement of sale the market (independent) estimation will be conducted and the initial price will be established. In order to conduct the sale, the initial price should not be lower than a standard price.

The Accounting Chamber has repeatedly offered to the Government to start using the indicated norms after results of the conducted checkups.

The important element is the control over the efficiency of investments of the federal budget financial means in non-state commercial organizations on account of transferring to the property of the Russian Federation of their blocks of shares.

We recognize that in this case the share of the Russian Federation in their charter capitals has to be: first - not less than 25 percents plus 1 share. And second, the state should receive dividends in the amounts, which could provide the yield of budget financing.

Thank you very much!

