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LAWLESS PRIVATIZATION?

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Abstract

This paper provides an historical analysis of the four privatization stages of the Russian economy covering the period 1986-2005 with particular attention to the initial period of private capital formation. We use data from the World Bank, the Russian Accounting Chamber and other publicly available sources to reveal how government policy − or lack of it − led to the emergence of privately owned companies, including enforcement agencies for property right protection with business-criminal relationships. Our analysis shows that the ultimate effect of privatization has been the transfer of ownership from the state to a few industry-based monopolistic structures with highly concentrated capital and unstable governance. Analyzed within the framework of new institutional economics, this paper provides a foundation for ongoing research on current Russian corporate ownership structures, capital formation and financial market development.

Key words: privatization, ownership structure, financial industrial groups

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1. Introduction

Strong ideological positions of different interest groups, and often misleading or inaccurate reporting, make economic analysis of the Russian transition a complex task. The outcomes are still debatable. The large-scale privatization programme in Russia was motivated by political and economic objectives intensified by a fiscal crisis[1]. This paper provides an analysis of the four privatization stages of the Russian economy to date with particular focus on the initial period of private capital formation.

The state economy of the Soviet Union was privatized quickly and massively in the absence of relevant legislation and supporting institutions. General criticism of the privatization reforms may be well summarised as a case of: 'Economics taking the law for granted' in the words of Avinash Dixit (2004, p.3)[2]. The accompanying emergence of organised crime in the early 1990s represents one possible institutional response to guard the rights of new private owners.

The consequences of privatization will influence the Russian economy for many years ahead. How corrupt the privatization was and what will be the dynamics of transition to a fully developed market economy may only be understood in the framework of institutional economics (North, 1990; Williamson, 1996, 2000). In this framework the process of privatization is interpreted not only as transfer of property rights from government to the private sector, but also as a fundamental process for the development of legal institutions and financial markets.

Throughout such a transition the primitive financial sector must play an increasingly important role, replacing that of government in mobilizing resources for investment and in exercising

[1] The fiscal crisis was characterised by unsustainable government budget deficits, high taxation and burdensome funding.

[2] The influence of A.K. Dixit's 2004 book *Lawlessness and Economics: Alternative Models of Governance,* Princeton University Press, is reflected in the title of this paper.

financial discipline. Recourse to external finance by private firms was promoted in Russia by fostering the development of capital markets and the financial sector itself in an attempt to make finance external to firms more easily available. The investment activity of Russian enterprises is one of the least studied topics in the development of the Russian economy due to the lack / inconsistency of data sources. The main source of corporate financing has been enterprises' retained earnings. Company equity has been used primarily to upgrade production facilities and technologies through active use of ADRs[3]. Intercompany loans have also been used widely in both private and large state companies. Borrowed funds (bank credits) have practically not been used to finance investment projects. Foreign investments have been associated mostly with foreign companies which created production facilities in Russia from scratch. The issue of bonds by corporations has been used in some cases to raise long-term, but mainly foreign, capital. In fact the Russian financing model, built around using company equity and own revenues, differs significantly from both the Anglo-American (public stock) and German (bank loan) models. The current trend of major Russian companies to attempt to raise capital internationally may indicate a growing demand for the rule of law provided by global financial markets[4].

The paper is organised as follows. The main section, 2, describes the privatization of Soviet state enterprises, government ministries, financial and distributional institutions in four stages defined by the dominating economic processes or changes in law. The overall dynamics of privatization and estimates of the proceeds of privatization to government are collected from a variety of sources and presented in Section 3. Section 4 gives an account of unprecedented criminal activities as a response to lacunae in legal and economic governance and a summary of Russian legal reforms in the framework of the new institutional economics (Williamson, 2000). Section 5 concludes.

[3] American depositary receipts (ADRs) have been extensively used by Russian companies for secondary listing in the US.

[4] There are 39 Russian companies that have undertaken IPOs in the 10 years to September 2006.

2. Major Stages of Privatization in Russia

The four phases of privatization in Russia are shown in Table 1.

Table 1. The four phases of privatization

Period	Stage	Economic processes
1986 – 1990	Latent privatization	Creation of "youth economy"; initial accumulation of capital; formation of first commercial banks; transformation of ministries into conglomerates.
1991 – 1994	Public mass privatization. Voucher auctions	Development of private banking sector and financial market infrastructure; mass privatization of small and medium-sized enterprises
1995 – 1998	Monetary ("loans for shares") privatization	Privatization of large companies in strategic sectors of the economy (oil, gas, metallurgy, telecoms); emergence of vertically integrated financial-industrial groups
1999 – 2005	Post-reform ownership concentration	Further development of market infrastructure and creation of oligopolistic financial-industrial groups

Russian privatization of state-owned enterprises had several political and economic objectives: (i) reducing the government's role in the economy by forming a wide class of private owners who would support the ongoing economic reform, (ii) raising investment capital for industry, (iii) increasing the efficiency of firms, (iv) exposing firms to greater competition and market discipline, (v) re-structuring the state-owned natural resource monopolies, (vi) raising revenue for the government, (vii) reducing government subsidies and (viii) attracting foreign investment. Furthermore, capital market development has been an explicit objective of privatization in Russia[5].

[5] Presidential Decree "On the State Programme of Privatization of State and Municipal Enterprises" issued 7 July 1991.Vedomosti S'ezda Narodnykh Deputatov RSFSR and Supreme Council of RF, 1991, **27**:927;

Federal Law of RF # 1531-I "On Privatization of State and Municipal Enterprises in Russian Federation" issued 3 July 1991. Vedomosti S'ezda Narodnykh Deputatov RSFSR and Supreme Council of RF, 1992, 28: 1614, Chapters 5, 9, 10 and 11;

Changes to the Federal Law # 2930-I "On Privatisaion of State and Municipal Enterprises in Russian Federation" issued 5 June 1992. Vedomosti S'ezda Narodnykh Deputatov RSFSR and Supreme Council of RF, 1992, 28: 1614;

Presidential Decree # 2284 "On the State Programme of Privatization of State and Municipal Enterprises" issued 24 of December 1993.

The social economic dilemma associated with privatization in Russia was that state enterprises were very large and, at the time, neither companies nor individuals had enough capital to purchase a stake in their ownership. In Stiglitz's words "there were no legitimate wealth holders to buy the assets" (Stiglitz, 1999, p.39).

Advocates of privatisation appealed to the Coase theorem (Coase, 1960) which states that under *perfect competition* and *zero transaction costs* all government allocations of property are equally efficient, because interested parties will bargain privately to correct any externalities. Therefore, giving employees and managers privileged access to shares of state enterprises appeared to be the easiest medium by which to privatize. Despite understanding the legal and law enforcement impediments, reformers expected that "institutions would follow private property" and assumed that the economy would make the transition "from legal structures that enforce contracts to regulatory structures that make a financial system work" (Stigliz 1999, p.55; Stiglitz, 2000, p.58).

2.1. Stage 1: Latent Privatization (1986-1991*)*

The development of embryonic pro-market structures in Russia took place behind the scenes in the late 1980s and has been studied little if at all. Most authors who analyse Russian privatization study the publicly announced privatization of 1991-1996 (see e.g. Clarke, 1992; Aslund, 1995). However, it is these spontaneous processes of property distribution which turned out to provide initial capital that led to the emergence of the 'oligarchs' and the formation of large *industrial financial groups* (FIGs).

Russia's path to a market economy originated with the setting up of Youth Scientific and Technical Innovation Centres (YSTICs). In its Statute dated 25 July 1986 the Communist Party permitted these Centres to "conclude contracts" with enterprises "on a self-financing basis" and pay the contractors later in cash. This freeing up of cash from enterprises started an inflationary process which has not been documented in the literature but is well remembered by ordinary Russians.

The YSTICs were given exceptional privileges when doing business − the right to engage in foreign trade, customs benefits, etc. These Centres were created as self-financing organisations with the exclusive right to intermediate between state enterprises and "innovative collectives" that wanted to make money performing research work for the enterprises[6]. Moreover, such joint ventures were relieved from income and profit taxes and did not have to pay for the use of production facilities that belonged to the Centres.[7] Technically, the process operated as follows: an enterprise made a non-cash transfer of a specific amount of money to the YSTIC in return for services. The YSTIC then retained from 18% in 1987 to 33% in 1990 of the sum of the contract and the profits were used to develop the Centre's business. 5% of the commission was remitted to the YSTI Coordination Councils - affiliated with Communist party structures (Kryshtanovskaya, 2002).

According to White (1996) by the spring of 1990, approximately 600 YSTI Centres and more than 17,000 student cooperatives were doing business in the country. Together they involved about 1 million people and 4,000 economic formations of various types under Communist Youth League Committees, including the Centre of International Cooperation "Olimpietz", All-Russian

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[6] State enterprises in the USSR could not legally make use of their funds outside of governmental planned activities in the extant five year plan. Bank credits played a purely artificial role in paper transactions between state enterprises. Employees' rates of remuneration were strictly regulated by the state and no other source of income was possible besides a regular salary.

[7] Documents of the Central Committee of Communist Youth League, 1989, pp. 184-186.

Aerospace Association "Vako" (1988), "YUNEX" Foreign Trade Organisation, a Youth Commercial Bank "Dair" (1991), Youth Ecological Centre (1989), etc.

The scope of the centres was broadened considerably after adoption of the "Law on Cooperatives" in May 1988, allowing them to engage in the manufacture of consumer goods and to establish economic relations with foreign organisations. They were exempt from all customs duties and could set their own prices for imported goods. Zadorin (1989) documented that in two years the 27 Moscow-based YSTICs signed contracts for a total value of 240 million roubles. Thus, Volgograd YSTIC "Progressor", employing 2,000 people, was involved in research and design works to the Ministry of Fuel and Gas with a total volume of contracts of more than 6 million roubles in 1988. The volume of work performed in 1988 to 1990 grew exponentially by as much as 60% monthly (Bunin, 1990). The most rapidly developing YSTICs were "Azot" under the Ministry of Chemical Fertilizers, "Orbita-Service" and "Photon" under the Ministry of Industrial Means of Communication, "Menatep" under the Moscow Frunzensky District Committee of the Communist Party (with L. Nevzlin, M. Khodorkovsky as chairmen) and many others.

After the abolition of benefits[8] at the end of 1991, young entrepreneurs, having accumulated initial capital, formed a class of private owners in such profitable spheres of entrepreneurship as international trade and tourism, construction, the media and financial services.[9]

Once the youth economy privatization model's economic efficacy had been convincingly demonstrated, the 'state' started to privatise itself. These early stages of hidden privatization took

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[8] Federal Law No. 2116-1 of the Russian Federation of December 27th, 1991, 'Concerning Tax on the Profit of Enterprises and Organisations'. Instruction No. 34 of the State Tax Service of the Russian Federation of March 16th, 1990, 'Concerning Taxation of the Profit and Income of Youth Legal Entities'.

Resolution of the XXI Congress of the Youth Communist League (April 1990) "On mechanism of management of property formed by the Youth Scientific Centres" that came into force in February 1991.

place without any announcement under the full control of state officials. The most important were the transformation of the system for managing the economy, privatization of the distribution and banking systems, and privatization of some of the most profitable enterprises. During this period, the first large private corporations were formed to replace ministries, exchanges and trade houses were created to replace the State Distribution Committees and the first commercial banks were set up. For example, Tyazhenergomash replaced the Ministry of Heavy, Energy and Transport Machine Building with the former minister, V. Velichko, becoming its CEO; Atommash replaced the privatised Ministry of Nuclear Energy and the former Deputy Minister V. Mikhailov became head of the company. Similarly, in 1989 the former minister V. Chernomyrdin became Chairman of the Gazprom — the privatised Ministry of the Gas Industry.[10] During the same period, the extremely large Russian companies such as Diamonds of Russia and Energomashexport were created from former state owned industries. Another natural resources concern, “Norilsky Nickel” was formed from six metallurgical plants by a resolution of the Council of Ministers (dated 4 November 1989) which aimed at restructuring the whole non-ferrous metallurgy industry. Privatisation of the concern took place later in 1994.

The privatization of a number of profitable production facilities also belongs to this period − Butek Machinery Holding Company in 1989, led by Mikhail Bocharov, a member of the Supreme Council, the ZIL and KamAZ automobile plants in August 1990, and Stroipolimer in 1990.

Before the reforms of 1988-1990 there existed a monobank system in the USSR represented by the Ministry of Finance and the State Bank. The State Bank, in turn, controlled six specialised

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[9] See the highlighted entries in Appendix 1 which developed through the YSTIC system.

[10] “Modern Political History of Russia (1985-1998)”. Book 1. Chronicle and Analytics. Moscow. RAU-Korporaciya. 1999, pp. 79-85;

banks: Vneshtorgbank – financing government foreign transactions, the Bank for Foreign Economic Activity (Vneshekonombank) − responsible for the foreign debt of the USSR, the Industrial Construction Bank (Promstroybank) − providing loans to industrial enterprises; the Agricultural Industrial Bank (Agroprombank) – financing agricultural producers; the Bank for Housing and Communal Services (Zhilsotsbank) – financing of housing and communal services objects; the Savings Bank (Sberbank) - providing services to the general public. Each specialized bank had thousands of branches throughout the country, however only Sberbank performed cash operations.

A number of the first commercial banks were formed through the privatization of former specialised state banks. In 1991 Promstroybank, Zhilsotsbank and Agroprombank were transformed into joint-stock banks. The Moscow Industrial Bank, the Moscow Interregional Commercial Bank, Promstroybank of Russia and Promstroybank of St. Petersburg were all created from the Promstroybank. Unicombank, Mosbiznesbank, Sverdlsotsbank and others came from Zhilsotsbank system. The owners of these new commercial banks, formed from territorial subsidiaries of specialised banks, were their former management and major customers.

Besides the former specialised banks, some new banks were created due to their founders' strong links to the political elite — Russian Credit (1990), Menatep(1988), Inkombank (1988), Mostbank(1991), Credobank (1989), and others (see Appendix 1). As a rule the clients of the new banks were state organisations. During the latent privatization of 1988-91, the struggle for clients was fierce, since managing cash flow in accounts was a highly profitable area of business in conditions of incredibly high inflation rates and instability of the rouble exchange rate.

Various Government Ministries' financial divisions were also transformed into commercial banks, with the Head of a Ministry's financial department becoming Chairman of the Board. One of the largest banks at that time, Bank Imperial, was created on 28 December 1990 (register number 1315) by the Ministry of Finance, and its Chairman, S. Rodionov, was previously the head of one of the Ministry's departments[11]. In a similar manner, Avtobank, Neftekhimbank, Promradtekhbank and other industrial banks had already appeared[12]. Interestingly, the three largest banks – Sberbank, Vneshtorgbank and Vnesheconombank − remained the property of the state. Appendix 1 gives the list of commercial banks registered in 1988-89.

The privatization of the distribution systems (*Gossnab* − The State Committee for Distribution) was done by creating the first exchanges, Moscow Commodities Exchange and Moscow Central Stock Exchange and trade houses. A number of joint enterprises were established by the Soviet Ministry of Foreign Trade and Soviet Committee for Foreign Economic Contracts.

This first period of latent privatization took place quite painlessly, since the process was based not on laws adopted by parliament, but on government decrees that transferred the property rights to authorized economic agents. The barter trade of power for property was the most actively used method. State officials established commercial structures to suit their own needs and eventually got themselves assigned there to run the businesses. So, the early market development in Russia was a period of initial capital accumulation for only a privileged few and was a process of property redistribution. At the end of this first period the new owners of the emerged businesses immediately started to consolidate their capital. Without doubt there were elements of non-observance of existing laws and lack of overall control of the process.

[11] Source: The Central Bank of Russia official website (Department of Public Affairs) http://www.cbr.ru/press/arxiv/980827_1646_lik04.htm

[12] Avtobank: Registration number 30, Date of registration 06.12.1988; Neftekhimbank: Registration number 38, Date of registration 28.12.1988; Promradtekhbank: Registration number 228, Date of registration 17.01.1990.

2.2. Stage 2: Mass Privatization (1991-1994)

The *publicly announced* privatization started in November 1991 by removing the restrictions on the establishment of small businesses (cooperatives). The federal law "On privatization of state enterprises in Russian Federation" (dated 3 July 1991 with amendments in June 1992) was further supported by presidential decrees, government resolutions and a three-year privatization programme regulating the process.[13] These laws foresaw the so called 'small', 'voucher' and 'money' privatization schemes.

Small privatization referred to all minor businesses, such as shops and restaurants, which would now be sold or leased with the right of complete buyout by their employees. Large and medium sized state enterprises were to be transformed into joint-stock companies with the government initially retaining control by owning a stake of shares to be sold later. Some shares were given away to the workers and management. Notably the natural resource monopolies, such as oil, nuclear power and telecommunications, were excluded from these privatization initiatives.

The first stage of mass privatization - the distribution of shares among employees of industrial enterprises - was conducted via voucher auctions (Woodruff, 2004). Having control over enterprise cash flows, managers had an irrefutable advantage in these auctions. The stockholdings created were transferable and were owned by individuals rather than collectively. The scale of equity transfer offered to managers and employees through voucher privatization was enormous - more than in any other privatization programme ever undertaken. Approximately 20,000 large and medium-size enterprises were under the privatization scheme by the end of 1992 (Schroder, 1999).

Privatization was mandatory under the law, and enterprises were given 60 days to form public companies. Within this period they had to formulate and submit their privatization plan to the regional privatization agency and to transform their juridical entity into an open joint-stock company. According to the original 1991 privatization plan, managers and employees (insiders) would be offered a free distribution of shares, but with no guarantees for insider dominance. These rules however changed a year later when the privatization programme (1992) offered three schemes of privatization for middle and large-size enterprises (see Table 3) which provided significant advantages to insiders. Depending on which option an enterprise chose (closed subscription or through special stock auctions) insiders could obtain from 25% to 50% of the firm's assets, with larger holdings having correspondingly higher prices (Flemming *et al.*, 2000).

The first option, which seemingly allowed up to 25% of shares to be obtained by workers for free, also imposed an upper limit equal to 20 minimum monthly salaries per worker, which consequently restricted the portion of freely distributed or discounted shares. Having analysed a sample of 87 industrial enterprises that were privatised during 1992 to 1993[14], we find that the actual stake of freely distributed shares transferred to workers' collectives was 10.1% on average, with half of the cases less than 4.2% (Table 2).

Table 2. Stake transferred to employees in a sample of 87 companies

Stake	<5%	5-10%	10-25%	25%
Number of Companies	48	7	3	29

Not surprisingly option 2, under which management and workers could buy the controlling share (51%) of stock at a significant discount, proved to be the most popular: according to Boycko *et al.* (1995) and Lieberman and Rahuja (1995), between 70% and 80% of enterprises chose this

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[13] Federal Law No. 1992-1 of the Russian Federation of December 6th, 1991; Decree No. 1148 of the RF President of December 4, 1997, 'On Presidential Decrees on Privatization '.
[14] Data from Interfax-SPARK Database.

method of privatization. The choices for option 1 and option 3 were only 21% and 1% respectively. The popularity of option two reflected the fears of insiders that external buyers (outsiders) could obtain a majority stake and exert pressure on managers to undertake restructuring, thus threatening their positions.

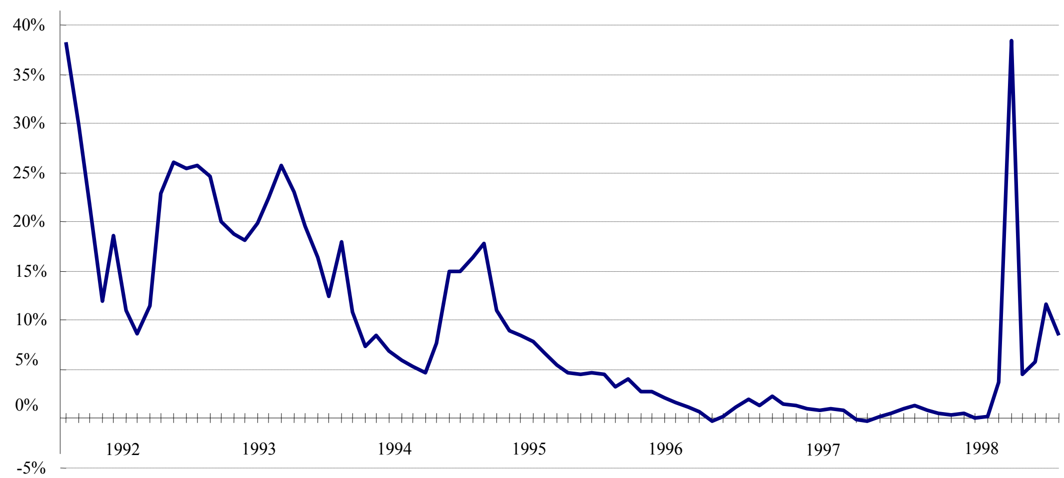
Table 3. Schemes of privatization processes in Russia in the early 1990s

Option 1	Option 2	Option 3[15]
▪ "Workers' collectives" were entitled to obtain 25% of non-voting preferred shares at no charge. However, the total value of the stock should not exceed the worth of 20 minimum monthly salaries per worker ▪ Funds corresponding to 10% of the chartered capital from selling the remaining shares at open voucher auctions would be deposited in a special privatisation account (fund), from which they could be used for purchase of further shares ▪ An additional 10% of common shares could be bought by workers at a 30% discount on the nominal price, but not for more than 6 minimum salaries per worker, on a 3-year instalment plan with the initial payment of not less than 25% ▪ Enterprise managers were offered to purchase 5% of common shares at the nominal price, but not for more than 200 minimum monthly salaries, and an additional 10% was to be deposited in a special development fund ▪ 21% of shares was assumed to be reserved by the regional property funds ▪ Remaining shares (not less than 29%) would be sold on securities markets within 6 months	▪ "Workers' collectives" could purchase 51% of the common shares at the nominal price multiplied by a coefficient of 1.7. However, 50% of the payment had to be made via privatisation vouchers. ▪ Another 5% of common shares could be deposited in a special privatisation account (fund) ▪ 21% of shares would be reserved by the regional property funds ▪ Remaining shares (not less than 29%) would be sold on securities markets within 6 months	▪ "Workers' collectives" that mandated to implement restructuring had an option to purchase 20% of the stock in common shares at the nominal price a year later ▪ Another 20% of common shares could be purchased by workers with a 30% discount on the nominal price (but they could not spend more than 20 minimum monthly salaries per worker), which could be paid in instalments within 3 years ▪ Not less than 29% would be sold on securities markets ▪ Remaining shares would be reserved by the regional property funds

[15] The third option was applicable only to enterprises with more than 200 workers and assets of 50 million *rouble*s (in 1991 prices).

To compensate for the fact that insiders had an advantage in acquiring shares, the government offered the remaining stock (not less than 29% of all shares) for sale at public auctions through investment vouchers[16]. These vouchers, issued free to all citizens, had a nominal value of 10, 000 *rouble*s (in January 1992 prices) and could be used to place bids for shares in auctions. This plan was not successful. Due to high inflation (see Figure 1) the value of the vouchers, which had been distributed well in advance of the auctions, dropped significantly. The result was that most citizens remained outside share ownership, while large blocks of vouchers were accumulated by speculators to be used later on to strengthen insider dominance.

Figure 1. Inflation dynamics in Russia from 1992 to 1999 (% per month)
Source: Entov R.M. (1999), "Modeling of Financial Data". IET, Moscow, p. 59



Under the presidential decree #786 of August 1993, the minimum portion of shares intended to exchange for vouchers was increased from 35% to 80%. In addition, the workers' collectives were given the right to reserve company stock for further distribution among employees in the buyout process and to sell remaining stock to outside investors not only for vouchers but also for cash. As a result, up to the end of 1993 privatization was accompanied by wide-spread buy-outs of shares by managers from employees. The buy-out price was set as a capitalized sum of rental payments, which due to hyperinflation (in 1992-93 inflation was running 14% per month) quite often turned out to be only a nominal figure. In most cases the privatization of large enterprises

[16] Presidential decrees on 31 December 1992 #1705 "On public participation in voucher auctions" and 11 June 1994

led to control being retained by the previous management having a controlling equity, while the employees held only minority ownership rights. The outcome of this phase of privatization was the formation of 100% employee-owned limited liability partnerships or private limited companies.

During this stage of mass privatization, 30% of shares were sold through commercial bidding, 31% and 29.5% correspondingly through sales of shares to workers' collectives and buyout of leased assets, 6.3% at voucher auctions and the remaining shares were sold through investment tenders.[17] Estimates suggested that by July 1994 about 40 million citizens had become shareholders in former state-owned enterprises comprising approximately 80% of the country's industrial output and accounting for 75% of the national labour force (McCarthy & Puffer, 2004; Buck *et al.*, 1998; Filatotchev *et al.*, 1999).

Although the statistics are unquestionably impressive the actual result of voucher privatisation was poor performance of former state enterprises due to lack of investment. Voucher privatisation neither contributed to the inflow of investments nor stimulated the accumulation of capital. State subsidies were eliminated, the new owners – managers and employees – did not have funds or motivation for restructuring. Rather than being reinvested in the companies or paid out as dividends to shareholders or taxes to the state, generated earnings were transferred to offshore accounts controlled by affiliates. Economic stagnation, fiscal crisis, hyperinflation, unemployment and a marked increase in inequality were the ultimate outcome of the public voucher stage of privatization.

#1233 "On the protection of rights of investors".

[17] Russian Statistics Yearbook (2003). State Statistics Agency. Moscow, 2003. Under privatization laws, the following methods for privatization were permitted: sales of shares; sale at auctions; sale through investment bidding; sale through commercial bidding; sale of assets of a bankrupt company or buyout of leased assets. Investment tenders linked the purchase of shares to a commitment of additional investment into an enterprise.

2.3. Stage 3: Monetary Privatization 1994-1997

The situation was exceedingly aggravated by the new programme of privatization that was adopted by the presidential decree # 1535 on 22 July 1994 and granted significant advantages to outsiders. The distinctive feature of the new programme was that privatization had to be conducted via voucher auctions or investment bidding only at market prices by actual cash payments. Thus, the assets had to be re-evaluated and sold at new prices; instalment sale contracts were restricted to three months (not three years, as before); additional benefits were granted to managers that could buy 5 percent of the stock equalling 2,000 minimum monthly salaries per person compared with 200 minimum previously. Consequently, the popularity of the first and the second methods of privatization increased, comprising correspondingly 37% and 48% of all enterprises privatized in 1995.

The money stage of privatization, seemingly oriented toward an inflow of new investments and the formation of so-called principal owners, merely launched the struggle for ownership and control. When control of a firm was acquired by an outsider, he either became a manager himself or appointed a ‘pocket manager’. Filatotchev *et al.* (1999) states that during 1995-1996, a substantial part of management was replaced: board members in a third of cases (33.5%) while managers in almost a quarter of cases (23.5%). Having become insiders, these new owners-managers continued former self-enrichment practices at the expense of the enterprise, thereby abusing the rights of other shareholders. For example, various obstacles to shareholder access to voting or even exclusion of minority shareholders from attending shareholders’ meetings, share dilution[18] by issuing additional stock to major shareholders or converting privileged shares into common ones if dividends were not paid became prevailing practice (Black *et al.*, 2000).

[18] Share dilution reduced the proportion of equity held by minority holders, thus weakening their voting power.

The series of abuses during the auctions[19] made the situation even worse by accumulating more stock in the hands of insiders and leaving the general public out. This was possible since there was little regulation of these auctions and, even in cases of outright violations, the government was either unable to enforce the rules or favoured the insiders because of political ties or bribes.

More than 16,000 enterprises took part in voucher auctions, with shares corresponding on average to 20% of the total capital sold (Hedlund, 2001). The remaining 80% of the capital either remained in the hands of the state or insiders (Lieberman *et al.*, 1995). According to data from the State Property Fund, by 1995 insiders owned about 70% of the shares in the privatized enterprises, including 17% in the hands of managers (World Bank, 2004).

Table 4 gives a comparison of different estimates for the distribution of ownership in 1994-1998.

In the later stages of the privatization of natural monopolies many dubious corporate practices have taken place executing hostile take-overs through bankruptcy proceedings, transfer pricing, barring shareholders from exercising their voting rights at meetings, increasing charter capital and offering newly issued shares only to insiders. The abusive nature of these practices is well documented (see, for example, Black *et al.*, 2000).

[19] Auctions were often arranged in inconvenient locations, or announced too late for general participation.

Table 4. Ownership structure of Russian joint-stock companies in 1994-1998

	Nottingham University (UK)[20]		Institute of Economy in Transition[21]			Blasi J. et al[22]			Russian Economic Barometer[23]		World Bank[24]
	1994	1996	1994	1995	1996	1994	1995	1996	1994	2000	1994
Insiders, total	**66**	**58**	**62**	**56**	**56**	**65**	**55**	**58**	**68**	**53**	**69**
- employees	44	43	53	43	40	56	39	40	55	35	48
- managers	22	15	9	13	16	9	16	18	23	18	21
Outsiders, total	**22**	**33**	**21**	**33**	**34**	**22**	**33**	**33**	**20**	**42**	**20**
Corporate owners, total	**10**	**23**	**11**	**20.7**	**25**	**-**	**23**	**25.4**	**10**	**23**	**-**
- banks, investment funds	-	7	-	7.5	-	-	7	6.6	2.8	6.9	-
- non-financial corporate owners	10	3	-	3	-	-	5	3.9	4.2	12.7	-
- financial-industrial groups	-	3	-	1	-	-	1	2.6	3.5	3.4	-
- other	-	10	-	9.5	-	-	10	12.3	-	-	-
Private owners	**6**	**8**	**10**	**11**	**9**	**-**	**9**	**6**	**10**	**19**	**-**
Foreign owners	**-**	**2**	**-**	**1**	**-**	**-**	**1**	**1.6**	**-**	**-**	**-**
State	**12**	**9**	**17**	**11**	**10**	**13**	**13**	**9**	**12**	**5**	**11**

In the loans-for-shares privatization scheme introduced by the Presidential Decree # 889 in August 1995 an authorised by the Federal Property Fund and the Ministry of Finance creditor – a private company or a group of companies that won an investment auction - would get the controlling interest in a large state enterprise as a security in exchange for loans to the federal

[20] Survey conducted by Nottingham University comprises 88 privatized firms in Moscow, S-Petersburg, the Urals and Nizhny Novgorod in 1994; 4Q1995-1Q1996 – 312 enterprises from 12 sectors of the economy. Source: Afanasyev M., Kuznetsov P., Fominyh A., *Korporativnoye Upravleniye Glazami Direktorata* (Corporate Governance from the Directorate's Viewpoint). Voprosy Economiki (Questions of Economy), 1997 (5), p. 87.

[21] Aggregated data based on surveys in 1994 -1996 conducted by the GosKomImuschestva RF (400 enterprises), Federal Commission on Securities (250 and 889 enterprises), IET (174 enterprises from all regions). Source: Radygin A., 1996 *Sobstvennost' i Integratsyonnye Processy v Korporativnom Sektore* (Ownership and Integration Processes in the Corporate Sector. Voprosy Economiki (Questions of Economy), 2001 (5), p. 26-45.

[22] Surveys performed by J. Blasi's group in 1994 (143 enterprises), 1995 (172 enterprises), 1996. Sources: Federal Commission on Securities, 1996в (4 quarter); Citied in Blasi J., Kroumova M., Kruse D. Kremlin Capitalism. Privatising the Russian Economy. Cornell University Press, 1997, p. 193.

[23] Surveys conducted by the REB in 1995 (138 enterprises together with IET), in 1997 - 139 (including 46 enterprises from the previous year), 1999 г. - prognosis. Source: Aukutsionek, Kapeliushnikov, Zhukov, 1998.

[24] Earle J., Estrin S., Leschenko L. Ownership Structures, Patterns of Control and Enterprise Behavior in Russia. In: Commander S., Fan Q., Shaffer M. (eds.) Enterprise Restructuring and Economic Policy in Russia. Washington, The World Bank, 1996.

government. Although the creditors had no power to sell shares, to issue securities, to receive dividends or to alter the legal status of the pledged companies, through the loans-for-shares scheme “assets [in 24 large industrial companies] estimated at more than $25 billion were privatized … for just $1.2 billion” (Blagov, 2002, p.2). For example, Norilsky Nickel was taken over by Interros group for a sum less than 170 million dollars. It has currently market capitalization more than 20 billion dollars which is nearly 100 times higher than its evaluation (see Appendix 3).

The loans-for-shares scheme contributed to greatly strengthening the positions of bank-led “financial industrial groups” (FIGs) such as Inkombank Group, Most-Bank Group, SBS-Agro Group, Oneximbank Group, Menatep Bank Group, “Rossiysky Kredit” Group, etc. These groups would later have a profound political and economic influence on the development of Russian capital markets.

The Federal Commission for Securities Markets was established by the Presidential Decree # 1009 "On the Federal Commission for Securities Market" as of July 1, 1996[25] and the Presidential Decree "On the Concept for the Development of the Capital Market in the RF" of July 1, 1996 in an attempt to improve the investment climate. Despite of the adoption of the Federal Law “On Securities Markets in Russian Federation” (as of 22 of April 1996) and “On the Protection of Legitimate Rights of Investors” (# 1233 as of 11 of June 1994) there was no mechanism for their enforcement and they only hampered foreign and domestic investment. Oligarchic groups were perceived by some as reinforcing corruption and creating pressure for weak enforcement, thereby contributing to the non-enforcement of capital market laws. Accordingly, restrictions on foreign ownership of newly privatised enterprises were imposed as a result of the lobbying of powerful industry-based business groups (McCarthy & Puffer, 2004,

[25] In addition to the Presidential Decree # 2063 "On measures aimed at state regulation of the securities market in the Russian Federation" of November 4, 1994

p.17) that emerged during this period. As a result, the institutional infrastructure already in place proved inadequate to protect investor property rights. In fact the Law on Financial-Industrial Groups (#190-FZ as of 30 November 1995) accelerated the consolidation of ownership even more by further integrating banking and industry. This was the time when "the oligarchs took a decisive step from financial to real [industrial] wealth" (Hedlund, 2001, p.231) forming vertically integrated business groups that had grown enough "to become an economically and politically relevant factor" (Schroder 1999, p.966). Appendix 2 summarises the data on major financial-industrial business groups currently dominating the Russian economy.

2.4. Stage 4: Post-Privatization Ownership Concentration (1998-2005)

Up to 1998, ownership concentration and consolidation of integrated financial and industrial structures have continued. At the same time, a series of legislative acts and regulations have been adopted to support the creation of a favourable investment climate and to protect investor rights.[26] For instance, the authority of the Federal Commission on the Securities Market was enhanced through the adoption in March, 5 1999 of the Federal Law # 46-FZ "On the Protection of Rights and Legitimate Interests of Investors in the Securities Market". This law provided a legal basis to penalize companies that violated disclosure provisions[27] (OECD 2002, p.11). Some authors contend, however, that the rights of dominant owners were strengthened by the law, while the rights of minority stakeholders and creditors were significantly weakened (Medvedeva

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[26] The Resolution # 785 of the Government of the RF "On State Programme for Protection of Rights of Investors for 1998-1999"of July 17, 1998; Clarification NA4-731 "On Shareholders' Rights in Cases of Additional Share Issues", of August 17, 1995

[27] In addition there were a number of FCSM acts to regulate the securities market such as:

- FCSM Act of October 02, 1997 "On the establishing of a register practice for the owners of the title securities";
- FCSM Act of October 17, 1997 "On the trust management of the securities and funds to be invested"';
- FCSM Act of October 16, 1997 "On the depository activities in the RF, establishment of the regulations and their further implementation";
- FCSM Act of November 16, 1998 " On established requirements for the trade organizers on the securities market of the RF";

et al., 2003). The Federal Law 127-FZ "On insolvency" issued on January 28, 1998, which has been actively used by banks and industrial groups as a means to take over companies, is a good example of this. Parliament finally passed the bankruptcy bill in September 2002, even though the first draft had been vetoed by the president only one month before. The veto, however, made it possible to write into the law certain proposals of lobbyists representing big businesses, such as a paragraph allowing companies to pay off their debts when they were financially able to do so (Woodruff, 2004). As a result, instead of strengthening legislation on property rights, minority shareholder rights continue to be violated.

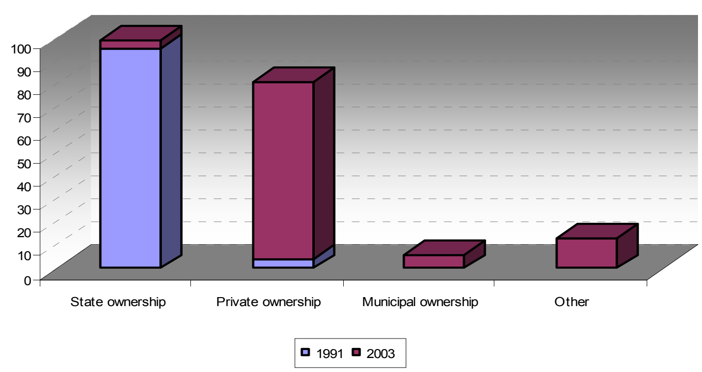
The trend of the current period is a strengthening of the role of the state.

3. Privatization proceeds

At the beginning of 1991 state-owned enterprises dominated the economy (see Figure 2).

Figure 2. Ownership of enterprises in 1991 and 2003

(Source: The Russian Accounting Chamber Report, 2004, in Russian)



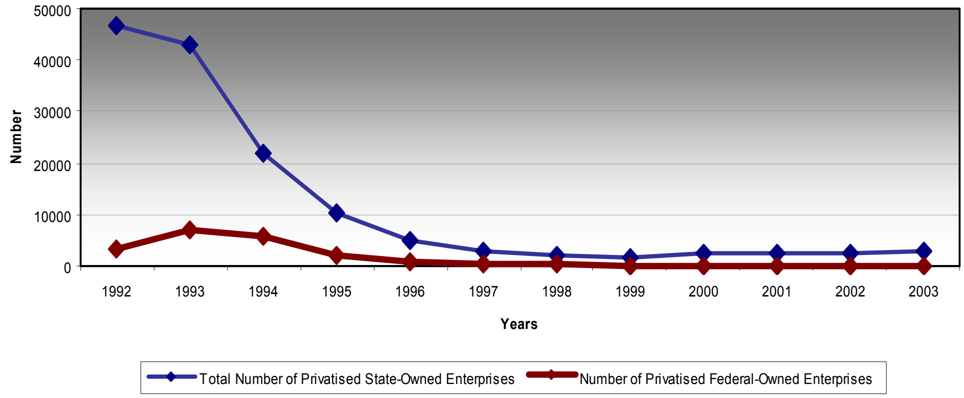
According to Russian State Committee data (*Analyz processov privatizacii gosudarstvennoy sobstvennosti v Rossiyskoy Federacii za period 1993-2003* Moscow, 2004) in 1992 there were 349,381 registered state-owned enterprises with a total book value of 35.6 billion *rouble*s and 80,809 municipal enterprises with total assets of more than 24.1 billion *rouble*s.[28] During 1991–

- FCSM Act of October 1999 "On rules for broker and dealer activities at the securities market of the RF".

[28] "Re-valuation of assets as of July, 1992", Goskomstat, Moscow, 1992.

1992, 46,800 enterprises were privatized, in 1993 the number increased to 88,600 and in 1994 to 112,600. The overall dynamics of privatization in the period 1992-2003 is shown in Figure 3.

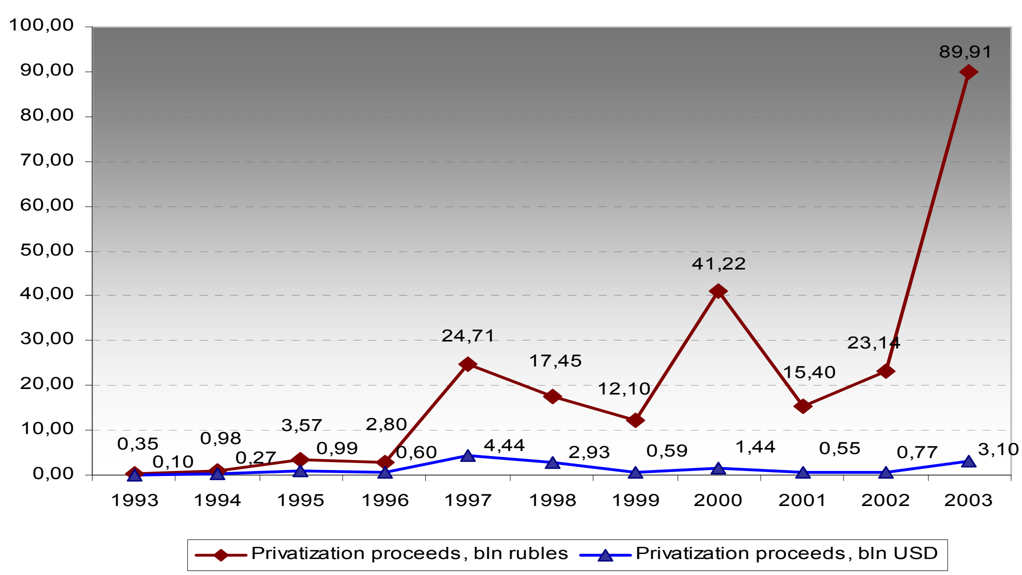
Figure 3. Total number of privatised state-owned enterprises
(Source: The Russian Accounting Chamber Report, 2004 in Russian)



Approximately 96,400 state-owned enterprises had been privatized from 1993-2003. As can be seen from Figure 2 the proportion of state ownership had decreased significantly by 2003. By the end of 2004 some 1,500-2,500 enterprises were still state-owned.

According to the Russian Accounting Chamber's expert estimates (Figure 4), the total revenue received by the federal budget in years 1992-2002 exceed 146.0 billion *rouble*s or $22.3 billion.

Figure 4. Privatisation proceeds in 1995- 2003
(Source: The Russian Accounting Chamber Report, 2004, in Russian)



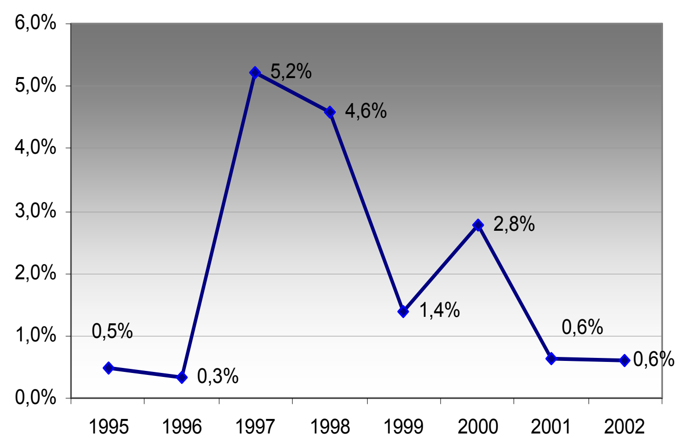
As can be seen from Table 5 and Figure 5 the peculiarities of the last two privatization phases described above had a significant effect on the total volume of revenues generated from state ownership divestment.

Table 5. Proceeds from privatization in Russia 1993-2003
(Source: The Russian Accounting Chamber Report, 2004 in Russian)

Years	Budget (billion *roubles*)	Actual Revenues (billion *roubles*)	Percentage (%)
1993	54.0	66.2	122.6
1994	1,244.9[1]	116.0[2]	9.3
1995	8.8	4.8	54.2
1996	12.4	0.8	6.7
1997	4.2	18.8	447.6
1998	8.1	15.3	188.9
1999	-	8.5	–
2000	21.0	31.3	149.0
2001	20.0	9.8	49.0
2002	35.0	13.2	37.7
2003	88.8	90.1	101.5
Total [3]	198.3	192.6	97.1

1 In 1998 prices
2 During 1993–1994 SOE privatization revenues included net income
3 Total amount does not include privatization proceeds in 1993 and 1994

Figure 5. Ratio of privatization proceeds to federal budget revenues 1995-2002
(Source: The Russian Accounting Chamber Report, 2004 in Russian)



There is insufficient data available today to calculate the real value of enterprises at the time of privatization, so we compare with World Bank data which shows the actual proceeds from this process with the market value of the companies as of March 2005. Appendix 3 contains data on the estimated government proceeds from privatization transactions that were carried out in

Russia between 1993 and 2003. Proceeds are defined to include all monetary receipts to the government resulting from transactions involving partial and full divestitures, concessions, management contracts and leases. Only those transactions that generated revenue for the government from privatization or private sector participation in an existing state-owned enterprise are included. If we accept the appropriately discounted current rate for inflation (see Figure 1) as an indicator of the real value of enterprises at their privatization, it appears that most viable firms were sold at a fairly nominal liquidation price which significantly undervalued the companies. These prices were often determined by much earlier book valuations prior to the period of high inflation in the early 1990s. Though the sales of state-owned enterprises have often been large in absolute size and as a fraction of GDP, the Russian government has in fact not enjoyed significant proceeds from privatization.

4. Institutions of Economic Governance

After the break up of Soviet Union the government dismantled the old governance system which was set up to protect state property but was unable to respond in a timely fashion to the arising institutional demand for the protection of private ownership and its transactions. The private owners' adaptive response to this was to turn to criminal groups.

V. Volkov (2002) provides an extensive sociological study of Russian organised crime in the 1990s and shows how these groups helped to sustain Russia's private economy. He argues that Russian criminalisation represents "one of the possible institutional arrangements for the protection of private property rights and a form for a shadow system of arbitration" (p.18). According to Volkov, up to 70% of all contracts in the mid-1990s were enforced without state participation. During the period 1991-1995, the increase in the number of criminal groups engaged in violent entrepreneurship was directly proportional to the growth of the private sector of the economy. Their number rose from 952 in 1991, to 4,300 in 1992 and to 5,691 in 1993

(Volkov, 2002, p. 151) and continued to grow up to 2001, only recently starting to decline (Table 6).

Table 6. Number of crimes during privatisation
(Source: The Russian Accounting Chamber Report, 2004 in Russian)

	1995	1996	1997	1998	1999	2000	2001	2002
Total number of crimes during privatisation	1086	1746	1758	1929	2751	3400	3700	3600
Number of crimes considered by the courts	443	880	443	600	980	2000	2100	1859
Indemnification, mln *rouble*s				127	540	1700	783	2600

The economic risks of conducting businesses in the mid-90s were enormously high. As the new market structures were growing at a speed much greater than that of institution-building, alternative mechanisms of protection and enforcement spontaneously evolved to compensate for this. The institutional vacuum was filled up by formal and informal private protection agencies and various semi-autonomous armed formations that were able to create order and enforce certain rules, thereby reducing uncertainty in economic exchange.

By the late 90s the criminal groups achieved substantial control over privatised enterprises through the practice of resolving corporate disputes, debt recovery or offering cheap start-up loans and tax exemptions, which eventually allowed them to directly exercise control over their clients' enterprises as legitimate shareholders. Some criminal groups found themselves bound by emerging formal rules of economic exchange that forced them to assume a more rational and a less risky pattern of behaviour. Currently they are moving in the direction of becoming legal businesses, complying with formal market economy rules, making capital investments and engaging in charitable activities.

The process of 'reforms' in the 1990s has had many other dimensions, notably distorted financial markets and the steady flight of capital, but privatization remains the best illustration of how rule aversion came to dominate the officially proclaimed ambition of establishing the rule of law. To help understand the transition of Russian reforms toward the rule of law we have listed (Figure 6) the laws introduced from the mid 1980s according to Williamson's hierarchy of institutional economics (Williamson, 2000; Dixit, 2004). Figure 6 illustrates the immense task which has been undertaken in the period after the break up of the Soviet Union. Nevertheless, delays in the introduction of appropriate laws, particularly at the level of economic activities (level 4) such as production, employment and financial market transactions, has led to excessive ownership concentration by oligarchic groups.

Figure 6. Current institutional environment and the institutions of governance

Level 1

Embeddedness:
Informal institutions, customs, traditions, norms and religion
100 to 1000 years

'Patrimonial' society, common set of values and state ownership prior to breakdown of USSR

Emergence of individual values

Level 2

Institutional Environment:
Formal rules of the game—esp. property (polity, judiciary, bureaucracy)
10 to 100 years

Law on Private Cooperatives (1986)
Law on State Enterprises (1987)
Enterprise Law (1990)
Law on Foreign Investments (1991, 1999)
Law on Securities Markets (1992, 1996, 2002)
Law on the Protection of Investors' Rights in the Securities Markets (1992, 1999, 2002, 2003)
Law on Joint-Stock Companies (1995, 2001)
Law on Foreign Trade Activity (1996)
Law on Insurance (1998)
Law on Limited Liability Companies (1998)
Land Reforms (2001, 2005)

Level 3

Governance: play of the game – contract (aligning governance structures with transactions)
1 to 10 to years

Code on Corporate Governance (1990) Law on Central Bank (1991, 1994)
Law on Competition and Limitation of Monopolistic Activity (1992)
Law on Pledge (1992, 1996, 1998)
Law on International Commercial Arbitration (1993)
Law on the Notariat (1993, 1997)
Law on Procuracy (1995)
Law on Arbitrage Courts (1995, 1997, 1998, 2001)
Criminal Code (1996, 2001)
Law on Judicial System (1997)
Law on Leasing (1998)
Legal-Judicial Reforms (2001-2003)
Law on Bankruptcy (2002)
Special Programme for Developing the Insurance Market (2002)
Administrative Reforms (2003)

Level 4

Resource Allocation and Employment
(prices and quantities; incentive alignment)
Continuous

Laws on Individual Labor Activity (1986)
Law on Currency Market Regulation (Law on Currency Control 1994, 2003)
Tax reforms (1997, 2001, 2003, 2004)
Labor Code (2001)
Financial System Reform Framework (2004)
Pension Reforms (Law on Private Pension Funds 2004)

5. Conclusions

This paper describes the approaches to privatization undertaken by the Russian government in the period 1986-2005 and examines their outcomes. This account may help to guide the management of future privatizations in transition economies.

Two conclusions can be drawn regarding Russian privatization in the early 1990s. First, privatization in Russia proceeded largely without proper attention to the sequencing of reforms, the design of the institutional infrastructure, the strengthening of the financial sector and capital markets and wider macroeconomic liberalization (promoting competition, etc). The Russian government ignored several crucial points: (i) a comprehensive design for the privatization programme; (ii) institutional reforms; (iii) deregulation of the financial sector before privatization; (iv) the merits of a measured rate of privatization; and (v) comprehensive social programmes. The academic literature suggests that share issue privatization has a higher success rate (in terms of money raised) and a more positive impact on promoting the development of a liquid stock market than do either asset sales or the voucher privatization that took place in Russia.

Secondly, privatization in Russia has been linked to powerful political and business interests and transparency and competitive bidding have not been achieved in the majority of cases. At the time of announcement of the public privatization programme it was already clear that a conscious political decision had been made to provide insiders with considerable benefits. The reformers claimed publicly that if insiders were not offered sufficient bribes, privatization would not be able to proceed (Blanchard & Layard, 1993, p. 5). The real reason behind this decision was that the "reform agenda was vested in a small circle of 'transactors' (whose) personal priorities came economically and politically to dominate the officially presented arguments" (Wedel, 1997, p. 68). Furthermore, their powers were sufficient to exclude the country's legislators from influence over the rules of the process of privatization. As a result, there was "no time to wait for necessary legislation, there was no consideration of fiscal revenues, and there was no room for strategic investors" (Hedlund, 2001, p. 232). The long-term consequences may turn out to be the serious ones and can only be understood in terms of the interactions of legal, economic and political forces.

Our institutional economics analysis of the Russian reforms covering the period 1986-2005 highlights the importance of the 'embeddedness' level of informal institutions by which inertia has 'a lasting grip on the way a society conducts itself'. On the other hand, it does show that the transition to a rule of law society has started, if somewhat piecemeal and in a random order. The biggest challenge faced by Russia currently is not the lack of laws, but the existence of "loop-holes" in the legal system that allows the seizure of property and suppression of information about companies.

The analysis undertaken in this paper allows us to conclude that Russia's rapid transition to a market economy through privatization led to highly concentrated ownership structures in an undeveloped institutional environment. The individual performance of selected Russian firms with respect to their ownership structure, sources of financing and governance may provide some hindsight with regard to an assessment of privatization and this is the topic of our current research. In future papers we hope to address the current desire of Russian corporations for global scope and legitimacy and its consequences for the Russian economy.

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Appendix 1. First commercial banks in Russia (1988-1989)

(Source: The Bank of Russia official website http://www.cbr.ru/credit)

Bank name	Registration Number	Date of Registration	Status
International Moscow Bank (Moscow)	N1	20.10.1989	
Closed JSC Commercial Bank "Viking"(S-Petersburg)	N2	26.08.1988	
Moscow Commercial Bank "Premier"	N3	29.08.1988	
Commercial Bank "Credit-Moskva"	N5	21.09.1988	
Interregional Credit Bank "Continent"	N11	11.10.1988	licence was withdrawn
Comercial Bank "Saniya"	N14	28.10.1988	licence was withdrawn
Financial Credit Society "Moscow Commercial Bureau"	N15	26.01.1993	licence was withdrawn
AMBI-Bank	N17	01.11.1988	licence was withdrawn
Commercial Bank "Stroykredit"	N18	05.11.1988	
Commercial Bank "Simbioz"	N19	05.11.1988	licence was withdrawn
Primorsky Regional Commercial Bank	N21	10.11.1988	
INKOMBANK (Commercial Bank of Innovations)	N22	11.11.1988	licence was withdrawn
AVTOVAZ Bank (OJSC)	N23	16.11.1988	licence was cancelled
International Commercial Bank "Vostok"	N26	23.11.1988	licence was withdrawn
Commercial Bank on Development of Building Materials Industry	N29	29.11.1988	licence was withdrawn
Vologda Commercial Bank "Severny"	N33	19.11.1988	licence was withdrawn
Cooperative Bank "Garant"	N34	22.12.1988	licence was withdrawn
Moscow Bank of Innovations	N35	28.12.1988	licence was withdrawn
"Aeroflot" Bank	N36	27.12.1988	licence was withdrawn
S-Petersburg Bank of Innovations	N37	27.12.1988	licence was withdrawn
Commercial Bank on Development of Petrochemical Industry "Neftekhimbank"	N38	28.12.1988	licence was withdrawn
Novosibirsk Bank of Innovations	N39	28.12.1988	licence was withdrawn
Bank of Innovations and Social-Economic Technologies	N40	28.12.1988	licence was withdrawn
Bank "MENATEP"	N41	29.12.1988	licence was withdrawn
Commercial Bank "Finist-Bank"	N42	05.01.1989	licence was withdrawn
Kaluga Bank of Innovations	N43	13.01.1989	licence was withdrawn
Commercial Bank of Chemical Industry "Khimbank"	N46	18.01.1989	licence was withdrawn
Chelybinsk Commercial Bank "ROTOR"	N48	20.01.1989	licence was withdrawn
Commercial Bank "Start-Bank"	N49	20.01.1989	licence was withdrawn
Commercial Bank of Scientific and Techological Advance "Progress-Bank"	N51	20.01.1989	licence was withdrawn
Energomashbank (Bank on Development of Power Machine-building Industry)	N52	20.01.1989	
Bank "Aleksandrovsky"	N53	20.01.1989	
Moscow Bank "Tempbank"	N55	24.01.1989	
Bank of Consumers' Cooperation	N56	02.02.1989	licence was withdrawn
Voronezh Commercial Bank "Energia"	N57	03.02.1989	licence was withdrawn
Commercial Bank "SBS-AGRO"	N61	14.02.1989	licence was withdrawn
Bank "Eleksbank"	N62	15.02.1989	licence was withdrawn
Chelyabinsk Commercial Bank "Forum-bank"	N63	16.02.1989	licence was withdrawn

Appendix 2. Major private financial-industrial business groups

(Source: The World Bank official website http://rru.worldbank.org/themes/privatization.html)

Financial-Industrial Group	Ultimate Owner/ Beneficiaries	Banking Holdings	Flagship Company	Sales, RUR	Employment
Gazprom	A. Miller	Gazprombank	Gazprom	870,815,385,000	247,800
Lukoil	V. Alekperov, Kukura, Maganov	PetroCommerzbank, Sobinbank, Bank "NIKoil"	Lukoil	474,973,216,000	136,868
Sibneft	Abramovich, Shvidler		Sibneft/Milhouse	202,629,008,000	168,554
Surgutneftegaz	Bogdanov	Surgutneftegazbank	Surgutneftegaz	163,129,392,000	65,325
Interros	Potanin, Prohorov	Rosbank, MFK-Bank	Norilsky Nikel	137,194,080,000	111,692
Renova	Blavatnik, Balaeskul Vekselberg		Renova/Access Industries	121,121,744,000	94,047
Avtovaz	Kadannikov	Avtovazbank	Avtovaz	111,593,552,000	167,223
Alpha-Group	Petr Aven, Mikhail Fridman, GermanKhan, Kuzmichiyov Alexey (77%)	Alfa-Bank	Golden-Telecom, Vimpelcom, TNK, Onako, Sidanco, Slavneft, Perekrestok	106,713,016,000	38,490
Severstal	Mordashov		Severstal	78,224,152,000	121,901
MDM	Andrey Melnichenko, Sergey Popov, Pumpiansky	MDM-Bank, MDM-Bank S.Pet., MDM-Bank Ural	Trubnaya Metallurgicheskaya Companiya, Sibirsko-Uralskaya Metallurgicheskaya Companiya, companies in coal-mining and chemical industries	70,276,496,000	143,437
BaseElement	Oleg Deripaska	Avtobank-Nikoil, Bank "Soyuz"	BaseElement, RusSKIY Aluminiy, RusPromAvto (Gaz, Paz, Liaz), companies in timber-processing industry	64,825,452,000	168,966
Magnotigorsk steel	Rashnikov		Magnotigorsk steel	57,199,712,000	56,892
Evraz	Abramov		Evraz	52,412,024,000	101,091
Tatneft	Tahaudinov		Tatneft	40,611,844,000	41,046
Novolipetsk steel	Lisin		Novolipetsk steel	38,951,240,000	47,326

UGMK	Makhmudov, Kazitsin		UGMK	33,221,580,000	74,933
Mechel	Ziuzin		Mechel	30,854,502,000	53,932
Sistema	Evtushenkov, Novitsky, Goncharuk	Bank of Moscow, MBRD, MIB	AFK “Sistema”, Oil company	26,946,746,000	20,272
IlimPulp	Smushkin, Zingarevich		IlimPulp	20,439,996,000	41,698
Wimm-Bill-Dann	Yakobashvilli, Plastinin, Dubinin		“WimmBillDann”	20,254,446,000	12,704
Metalloinvest	Oleg Soskovetz, Ivanishvili, Gindin	Metalloinvest-bank	Metalloinvest	15,113,239,000	35,935
OMZ	Bendukidze, Kazbekov		OMZ	10,265,729,000	35,384
Vneshtorgbank / Guta Group		Guta-Bank, Tverbank, Lipetsky Regional Bank, Sverdlovky Gubernsky Bank	“Rot-Front”, “Krasny Oktyabr”, “Concern Babaevsky”		
UES	Anatoliy Chubais	Evrofinans-Mosnarbank	UES of Russia	34,460,744,000	13,500
Menatep Group	Mikhail Khodorkovskiy	Menatep S.Petersburg, Investment Bank “Trust”	UKOS		

Appendix 3. Proceeds from privatization in Russia between 1993 and 2003

(*Source: The World Bank official website http://rru.worldbank.org/themes/privatization.html*)

Year	Sector	Name	Proceeds (US$ million)	Market capitalisation for listed companies as of May, 2006 (US$ million)
1991	Manufacturing & Services	Cemash	35	
1992	Manufacturing & Services	Novomoskovsky	50	
1992	Manufacturing & Services	Prestige Cruise	13	
1992	Manufacturing & Services	Uritski Manufacturing factory	25	
1993	Manufacturing & Services	5 timber enterprises	1	
1993	Manufacturing & Services	Baltika	23	3,981
1993	Manufacturing & Services	Bolshevichka	6	
1993	Manufacturing & Services	Era	24	
1993	Manufacturing & Services	PO Novomoskovskbytkhim	50	
1993	Manufacturing & Services	Uralmash Zavod	1	
1993	Manufacturing & Services	Zavod Imeni Likhacheva (Zil)	5	
1993	Other	Red October	0	
1995	Energy	Lukoil	35	
1995	Energy	Lukoil	320	65,942
1995	Energy	Sidanko	130	
1995	Energy	Surgutneftegaz	88	48,128
1995	Energy	Yukos	159	2,982
1995	Manufacturing & Services	Novolipetssky Metallurgichesky Kombinat	31	13,437
1995	Primary	Mechel	13	3,122
1995	Primary	Norilsk Nickel	170	22,911
1995	Infrastructure	Mosenergo	23	6,229
1995	Infrastructure	Murmanskoye Parokhodstvo	4	
1995	Infrastructure	Novorossiisk Sea Shipping Co.	23	857
1996	Energy	Gazprom	429	248,281
1996	Energy	Lukoil	131	65,942
1996	Energy	Sibneft	..	17,069
1996	Energy	Sidanco	21	
1996	Energy	Tatneft	120	9,446
1996	Energy	Yukos	160	2,982
1996	Infrastructure	UES	330	24,824
1997	Energy	East Siberian Oil and Gas Company (VSNK)	20	
1997	Energy	Eastern Oil Company (VNK)	875	
1997	Energy	KomiTEK	156	
1997	Energy	Nafta-Moskva	12	
1997	Energy	Sidanko	130	
1997	Energy	Slavnet	39	9,508

1997	Energy	Tyumen Oil Company	820	39,617
1997	Primary	Norilsk Nickel	250	22,911
1997	Infrastructure	Svyazinvest	1,875	
1998	Energy	Gazprom	660	248,281
1998	Primary	Kuzbassrazrezugol	55	
1998	Primary	South Kuzbass	34	
1998	Infrastructure	Vimpelcom	160	8,521
1999	Energy	Gazprom	660	248,281
1999	Energy	Neftochim	101	
2000	Energy	Obneftegazgeologia	2	
2000	Energy	Zarubezhneftegazstroy	0	
2000	Manufacturing & Services	Bogoslovskiy Aluminum Works	3	
2000	Manufacturing & Services	Kolomina Locomotive Plant	4	
2000	Primary	Chita Mining Co	12	
2000	Primary	Kenotek	4	
2000	Primary	Khakasskaya Mine	0	
2000	Primary	Khakasugol	1	
2000	Primary	Kuznetskugol Mining Company	2	
2000	Primary	Sokolovskoye	2	
2001	Energy	Onako	1,08	
2001	Manufacturing & Services	Moscow River Navigation	5	
2001	Manufacturing & Services	Plastik	1	
2001	Financial	Avtovazbank	4	
2001	Financial	Chelyabkomzembank	2	
2001	Financial	Pyotr Pervy Bank	3	
2001	Financial	Rosgosstrakh	8	
2002	Energy	Nafta-Moskva	1	
2002	Energy	Tatenergo	38	
2002	Primary	Dalvostugol	30	
2002	Primary	Kiselevskugol	1	
2002	Financial	Khanty-Mansiisky Bank	32	
2002	Financial	Vyatka Bank	1	
2002	Other	Pavlovsky Engineering Plant	3	
2002	Infrastructure	Solikamskaya HPP 12	14	
2003	Manufacturing & Services	Raevsky Sugar Plant	5	
2003	Primary	Lenzoloto (gold mining company)	153	
2003	Primary	OAO Aldanzoloto	15	
2003	Primary	Rudnik Imeni Matrosova	34	
2003	Primary	Vorkutaugol	28	
2003	Financial	Roseximbank	28	
2003	Financial	Rosgosstrakh	22	
2003	Other	JSC Mechanical Plant 345	0	
2003	Infrastructure	Arkhangelsk Marine Merchant Port	3	
2003	Infrastructure	Pevek Sea Port Co	0	