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Monitoring the Transparency and Compliance of State-Owned Enterprise in Russia

Rating access to procurement information in State-Owned Enterprise

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Part 1 – Introduction

Legal Framework of State-Owned Enterprise

The legal framework of State-Owned Enterprises (государственная корпорация) was first introduced in the 1999 law on Non-Profit Organizations. However, it did not become widely used until 2007, when several laws were passed in an extremely short period of time, which immediately created six of these businesses. It is worth noting the swiftness in which these laws were passed. For example, Federal Law 238-F3 on State-Owned Enterprises for Building Olympic Facilities and the Development of Sochi as a Mountain Resort was brought to the floor on September 12, 2007 and, in just over a month, it was passed onto to the President for signing. By 30 October, it was a law. These expedited time periods could point to heightened political pressure and are a sure sign of lack of legal procedures. In another example, Federal Law 270-F3 on the State-Owned



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Enterprise “Rostec,” only 16 days passed between bringing the bill to the floor and passing it into law.¹

State-owned enterprises have the privilege of a special legal status: their leadership and oversight committees are appointed by the President of the Russian Federation and they are not subject to bankruptcy or the same checks by public authorities as other NGOs are.² Without the consent of state-owned enterprises, most governmental bodies cannot obtain administrative documents or information about the financial decisions, nor can they audit the company or send a representative to partake in meetings at the office.

Property, which has been given to the state-owned enterprise becomes part of that entity and is no longer property of the government. The state-owned enterprise does not answer for the obligations of the government, nor is the government responsible for the obligations of the enterprise. These practices point out the idiosyncratic unrequited privatization of government assets for the use of the state-owned enterprise and the low level of transparency that significantly increases the risk of corruption.

Along with that, employees of state-owned enterprises are equals to federal employees.³ They answer to the demands of anticorruption lawmakers.⁴ For example, they can be fired for dishonesty⁵ and they are subject to rules prohibiting possession of

¹ Submitted by the President to the State Duma 25 October 2007, the final version of the bill was passed on November 9, 2007 and signed by the President November 23, 2007

² Footnote was on the original with no citation

³ By federal law N 329-F3 (21 Nov 2011) on Amendments to Specific Legislative Acts of the Russian Federation in Connection to the Improvement of Government Administration in the Area of Anti-Corruption.

⁴ Federal law 273-F3 on Anti-Corruption Activities can be specified as the basis of this assumption (revised 7 May 2013).

⁵ Article 13.2 F3-273.



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deposits, undocumented cash and other assets in offshore accounts or safety deposit boxes. They are also forbidden to own or use foreign financial instruments.⁶ Employees of state-owned enterprises are obliged inform their employer of income, property and other assets of themselves and of their spouse and under-aged children.⁷ This information should be declared on the official site of the enterprise.⁸ The same rules apply to the employees' spending.⁹ When a conflict of interest occurs with an employee of state-owned enterprises, that person must hand the stocks and bonds in question over to a trusted institution.¹⁰

The websites of Rosatom and The Foundation for Cooperative Housing Reform are the only state-owned enterprises with websites that have compliance¹¹ or anti-corruption sections. According to Part 9 Article 8 of Federal Law 273-F3, anyone to whom this law applies but does not publish a declaration is in direct violation of the law and shall be let go. Therefore, not declaring one's assets can bring about serious consequences. It is worth pointing out that in 2011, shares of the state-owned company Rosnano went public and we can no longer include it in our report.

⁶ Article 7.1 F3-273.

⁷ Subparagraph 3.1-4 Part 1 Article 8 F3-273.

⁸ Part 6. Article 8 F3-273.

⁹ Article 8.1 F3-273.

¹⁰ Article 12.3 F3-273.

¹¹ Foreign anti-corruption compliance policy systems have been widely introduced in the last 10 years. The term «compliance» (комплаенс) is used in Russian and can describe the observance of norms or a special department in a company that monitors corruption risks and exposes violations of anti-corruption policy. It can also be "implementation of anti-corruption programs at the municipal level" *Moscow: American Bar Association, 2013. P.18-25.*



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In this research we will investigate the following aspects of state-owned companies: special aspects of the administration, the availability of corporate information, and the availability of information on government procurement.

Executive Summary

The Transparency of State-Owned Enterprises Rating is based on the report, which looked at special aspects of the administration, the availability of corporate information, and the availability of information on government procurement.

In Russia, state-owned enterprises play a big part in the economic network of the country. They have special characteristics that allow them to compete in the market and also facilitate them to fill strategic roles of the government. The construction of infrastructure in Sochi for the 2014 Olympic Games is an example of this type of role.

As a result of this research, the state-owned enterprises have been ranked according to their level of corporate accessibility and compliance. Rosatom received 16 points, the highest rating of the group, while The Foundation for Cooperative Housing Reform and Vnesheconombank (VEB) received 10.5, the lowest. The second rating shows the level of procurement transparency of state-owned enterprises. The results are analogous with the first ranking.

In the research, we came across incidents of conflict of interests in VEB, which, when not properly dealt with, had turned into infringements of anti-corruption legislation. We also found an instance, when one person turned out to be on the supervisory council of two state-owned enterprises: I.N. Slyunyaev is the chair of the council of both Olympstroy and The Foundation for Cooperative Housing Reform.

Neither laws concerning state-owned enterprises nor internal policies regulate the question of payment for the work of council members. In Rosatom and Rostec, members



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of the council work by contract. This causes a legal clash: according to the law, members of the council don't work in state-owned enterprises on a continuous basis and have a right to combine their membership on the council with other government jobs. They do not have the right to receive compensation anywhere, except in their primary place of work. However, Article 11 of the Work Code of the Russian Federation states that labor standards do not cover members of supervisory councils. This seemingly undermines the authority of corporate policy, which regulate the creation of the supervisory council and payment to its members.

In summation, the research showed that of all the state-owned enterprises, only Rosatom and The Foundation for Cooperative Housing Reform include sections on compliance and anti-corruption. There is also a fundamental lack of timely declarations of assets and of conflicts of interests amongst state-owned enterprises. All of this information should be published and available for public use according to Part 9, Article 8 of Federal Law 273-F3. Violations are punishable by job termination.

Comparative Analysis

State-owned enterprises have complex inner policies regarding procurement. These nuances can be divided into two groups: those, which are older and less detailed and those, which are newer and more carefully defined.

It is necessary to point out that the actual use of these policies has decreased to the bare minimum due to the fact that no enterprises observe all of the freedom of information rules provided for in the policies. The official website, which should contain all of the information on procurement activities (www.zakupki.gov.ru) is essentially ignored by every state-owned enterprise.

The methodology, based on a system of points, is explained in the table below. If we managed to identify the obligatory information for a particular field, we assigned the



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enterprise one point. If the information wasn't available, they received no points. If we were able to gain access to the information, but the documents were incomplete or outdated, we assigned 0.5 points.

Compliance and Transparency Rating of State-Owned Enterprises

Rank	Name	Comments	Total Points
1	Rosatom	- Leading in transparent procurements and corporate policy	16
2	Deposit Insurance Agency	- Publishes income declarations of supervisory council members, but lacks anti-corruption section on the website - No subsidiary organizations	15
3	Olympstroy	- Received a fairly high rank due to their formal observance of the demands regarding government procurement and has only one subsidiary - Excessive increases in funding and frequent changes in administration in the absence of anti-corruption measures has lead to distrust amongst investors	12



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4	Rostec	<ul style="list-style-type: none">- Adds information to the public procurement website after they have been completed, but lacks protocol- Missing monthly procurement reports for the past year- Non-existent procedures for publishing conflicts of interest and compliance practices	12
5	The Foundation for Cooperative Housing Reform	<ul style="list-style-type: none">- Absence of procurement information on the website- Chairman of the supervisory council simultaneously acts as the chair of the council at Olympstroy- Questionable procedures of housing allocation in Sochi	10.5
6	Vnesheconombank	<ul style="list-style-type: none">- Unacceptable conflicts of interest- Poor conduct of procurement procedures- Many subsidiaries- Opaque management practices- Absence of anti-corruption mechanisms	10.5

Part 2: State-Owned Enterprises

Rostec

Special Aspects of the Administration

The enterprise is made up of 663 organizations, 13 of which are holdings. Eight of the holdings contribute to the military-industrial complex and five are civilian, non-



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defense related. Beyond that, 21 of the organizations have been given the freedom to manage themselves.

The organizational management system of State-owned enterprises contains a supervisory council consisting of nine members plus the chairman (the Minister of Industry of the Russian Federation, D.V. Manturov), a board of directors of 15 members, and a general director (S.M. Chemezov) who is appointed by the President of the Russian Federation.

The standard list of organizational authority of the supervisory council is located on Article 12 of Federal Law 270-F3, but the Decree of the President of the Russian Federation significantly expands their rights.¹²

In accordance with Part 2 Article 11 of Federal Law 270-F3, the supervisory council of Rostec is comprised of nine members: four representatives of the President of the Russian Federation, four representatives of the Government of the Russian Federation, and the General Director of the enterprise. In comparison with other state-owned enterprises, Rostec has not defined a development plan. This hinders predictability and increases risk for investors.

Openness of Corporate Information

Many of the companies that are part of the state-owned enterprise appear to be publicly traded companies on their official website for trade and procurement declarations. RT-Construction Technology is just one example.¹³ In paragraphs 2 and 3 of Article 1 of Federal Law 223-F3, the provisions of this law apply not only to the state-

¹² Presidential Decree 1052 (10 July 2008) on Questions of State-Owned Enterprise to Facilitate the Development, Production and Export of the High-Tech Industrial Products of RosTec.

¹³ <http://www.stroytech-rt.ru/>



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owned enterprise itself, but also to those subsidiaries, of which more than 50 percent of the aggregate total belongs to the state-owned enterprise. In accordance with Article 92 of the Law on Publicly Traded Companies, publicly traded companies are obliged to provide an accessible annual report including accounting information, bond prospectus (in cases stipulated by legislation of the Russian Federation), information on share-holder meetings and any other meetings determined relevant by the Federal executive body that regulates the bond market.

A random transparency check of the Rostec's activities related to public trading revealed the following:

- 1) Russian Helicopters JSC¹⁴ has published all of the necessary information on its website (in the Investors section¹⁵).
- 2) Aviapriborstroenie Consolidated JSC¹⁶ has changed from the old universal site to the website www.e-disclosure.ru¹⁷ on 1 September of last year to officially disclose its reports. However, they've already passed the deadline to publish several lists of affiliations in 2013. By law, they should have already published the lists from January and April of this year, but so far, not a single list has been published.

¹⁴ www.russianhelicopters.aero.

¹⁵ www.russianhelicopters.aero/ru/investors.

¹⁶ www.oao-aps.ru.

¹⁷ www.e-disclosure.ru/portal/company.aspx?id=31307.



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- 3) Bryansk Electromechanical Factory JSC¹⁸ has published all of the obligatory information on the site www.e-disclosure.ru.¹⁹
- 4) Tomsk Measuring Instruments Factory JSC has also published all of the necessary information on a special site for open information.²⁰
- 5) Special Construction Bureau of the Cable Industry JSC publishes its statements on its page of the www.e-disclosure.ru system.²¹

Openness of Procurement²²

The policy statement on procurement activities of the organizations within Rostec came into effect on 27 December 2012. That being said, this state-owned enterprise includes eight organizations of the military-industrial complex and open access to information about procurements and trading can be limited in order to protect military and state secrets.²³ In these cases, procurement auctions are closed to the public. Corporate information about current and ongoing procurement is placed on the official site for government procurement disclosure (www.zakupki.gov.ru). However, information about the winner of completed auctions, which is required to be published, is not available. For the past year, Rostec has ignored the obligations of Federal Law 223-

¹⁸ www.bryanskemz.ru

¹⁹ www.e-disclosure.ru/portal/company.aspx?id=30547

²⁰ <http://www.disclosure.ru/issuer/7017004006/>

²¹ <http://www.e-disclosure.ru/portal/company.aspx?id=30754>

²² For a detailed analysis of procurement disclosures and ratings of state-owned enterprise, see the appendix to this report.

²³ Article 20.2 about the procurement activities of subsidiaries of Rostec (revised 26 Dec 2012)



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F3, which demand public disclosure of the quantity and overall price of contracts closed each month. These reports have only been completed for the first few months on 2012.

Due to these factors, Rostec has attained only an average rating in regards to transparent procurements and formal adherence to their legal obligations.

Olympstroy

Special Aspects of the Administration

As is apparent by its name, Olympstroy is obliged to carry out the preparations for the 2014 Winter Olympic and Paralympic Games in Sochi by the decision of the International Olympic Commission (Guatemala, 4 June 2007). From 2006 to 2014, major assets were allocated from the Federal Budget²⁴ to the “Program of the Construction of

²⁴ The initial size of the asset contribution to the enterprise, in accordance with Federal Decree 991 (29 Dec 2007), was 170.8 billion rubles. By 1 Feb 2013, expenditures of the enterprise had already reached 1.526 trillion rubles. Of that, nearly 200 billion rubles had been spent on the construction of sporting facilities.



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Olympic Infrastructure and Development in Sochi as an Alpine Climate Resort.”²⁵

Fundamental goals of the program included infrastructural development of Sochi and the creation of provisions for the formation of Russia’s first world-class alpine resort, and also the guarantee of provisions for the XXII Winter Olympic Games. There were 65 changes to the given program – 50 of which were by decree from the Russian Government. The last change is dated 26 April 2013.

In accordance with Federal Law 238-F3, administrative organs of the state-owned enterprise include a supervisory council made up of 18 members with the chair being the Minister of Regional Development of the Russian Federation (I.N. Slyunyaev) and a board of directors²⁶ of 11 members headed by the President of Olympstroy (S.A. Gaplikov). At first, President Putin personally invited the head of Transneft (Semyon Vaynshtok) to lead the Olympstroy project. He became the head of Olympstroy on 11 September 2007, but was replaced by the former mayor of Sochi V. V. Kolodyazhny on 17 April 2008.²⁷ In the beginning of June 2009, the company changed hands again.

T.K. Belloev, the founder of the Baltica brewery and proprietor of the construction-investment company Grantika, became the new president of Olympstroy. We noticed that Belloev’s company Grantika was building the housing complex “Light of Sochi” in the center of the Winter Olympics 2014. However, Belloev didn’t hold the post

²⁵ Approved by Decree 991 of the Government of the Russian Federation on 29 Dec 2007. <http://www.sc-os.ru/common/upload/Programme.pdf>.

²⁶ Affective under the provisions of the policy document on 30 June 2009. http://www.sc-os.ru/common/upload/nabl_sovet_doc/pol_pravl.pdf.

²⁷ Executive Order 509-P of the Government of the Russian Federation from 17 April 2008.



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for long. In January 2011, he gave up the position for “health reasons”²⁸ and the former Chairman of the Chuvashia Ministers’ Office and then-assistant director of the executive apparatus, S.A. Gaplikov, was appointed in April 2010.

As it turns out, the president of Olympstroy was replaced every two years and a clear appraisal of their work is nonexistent. That kind of administrative regime says something about the work ethic of the corporation. The annual expense of the construction of Olympic infrastructure seems unjustifiable under proper audit and control.

Openness of Corporate Information

We found only one subsidiary of Olympstroy.²⁹ It has legal structure with limited responsibility. In accordance with the law on “organizations with limited responsibility” LLCs are not required to publish reports on their activities, except in several cases wherein the government can intervene. Hence, neither did the subsidiary of Olympstroy grant access to its records, nor did it break the law.

²⁸ During Belloev's resignation from the presidency of Olympstroy in 2010, the Investigation Committee of the Russian Federation in Krasnodar, criminal cases were brought up about instances of corruption in both the authoritative bodies and in the company itself during the preparation for the 2014 Olympic Games. The Committee found 27 instances of reported corruption in Sochi, which is eight more than in the previous year. Due to the provision of counterfeit documents, the accused had illegitimately received more than 23 million rubles from 2007- 2010. For more details, see: http://www.gazeta.ru/news/business/2011/01/31/n_1682318.shtml. In the beginning of September 2012, the company “BTK Group” (which belongs to Belloev) won a competition (in which it was the only participant) and closed a deal with the Committee to produce and supply the official uniforms for its employees. This is, more than likely, why the Committee, did not raise any claims against the former head of Olympstroy. For more details, see: http://www.vedomosti.ru/newspaper/article/332201/forma_ot_bolloeva

²⁹ Promservice, LLC. www.olimp-ps.ru/o-nas



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Openness of Procurement³⁰

The rules in regards to the procurement procedures of Olympstroy are regulated by unified sectorial standards of state-owned enterprises. The rules prescribe in full detail the way that auctions and trading should be conducted. We cannot discount the quantity of information that Olympstroy provides for public evaluation on their website. In 2012, Olympstroy was given the rating of “high level of transparency” in accordance with the “National Rating of Transparent Procurement.”³¹ All monthly reports about contracts that have been negotiated are in place on the Olympstroy’s website.³²

³⁰ For a detailed analysis of procurement disclosures and ratings of state-owned enterprise, see the appendix to this report.

³¹ http://nrpz.ru/press/infocentr_2014.html

³² <http://www.sc-os.ru/ru/concurs/reestr/>



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Rosatom

Special Aspects of the Administration

The leadership of the organization is carried out by the supervisory council, which is made up of eight members and a chairman (B.V. Gryzlov), the board of directors of 13 members and a chairman (S.V. Kirienko), and the General Director (S.V. Kirienko).

At Rosatom (as at Rostec), the members of the supervisory council are, officially, contracted. This creates the following legal conflict: by law, members of the supervisory council do not work in state-owned enterprises on a permanent basis, and are entitled to combine the membership on the supervisory council with their position in the government or a federal agency. However, according to the Labor Code of the Russian Federation (Article 11), legal standards do not apply to members of the supervisory council. Accordingly, in order to avoid controversy within labor laws, members of the council should be paid for their work.

Six permanent consulting organs are also part of the administration system of the enterprise. This allows them to judge the transparency of the corporation on a higher level.

Compliance



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Rosatom has open public-reporting policies. In the frame of the given policy, reports on spending and assets of the General Director, Assistant Director and the members of the Board of Directors have been published annually (from 2009-2012).³³

In the goal of minimization of corruption risks, embezzlement, and fraud in atom-related enterprises, the General Director of Rosatom (S.V. Kirienko) has rubberstamped a complex anti-corruption program for the industry. Any employee of the state-owned enterprise or its subsidiary can report fraud or embezzlement using a hot line, which guarantees nondisclosure of the source's identity and the independent investigation of any complaint by the Department of Asset Defense. A system of organizational, economic, legal, informational, and departmental measures has also been developed within this special program in 2012-2013.³⁴

Included in the program created by order 1122-P by the Commission Against Corruption, effective as of 26 December 2011, are questions of respecting ethics of conducting business and regulating conflict of interests between employees of the atom industry and organizations in the industry.

Openness of Corporate Information

In accordance with Parts 2 and 3 of Article 3 of Federal Law 224-F3 on Countermeasures Against Wrongful Use of Insider Information and Market Manipulation and On Introducing Changes to Non-Integrated Legislative Acts of the Russian Federation, Rosatom determined a list of concepts that relate to insider information.

A list of subsidiaries are available on Rosatom's website.

³³ http://www.rosatom.ru/aboutcorporation/public_reporting/incomeGD/.

³⁴ <http://www.rosatom.ru/resources/2d8764004e64706d92639a8cb8b4ed30/anticorruption.pdf>.



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- AKME-Engineering JSC³⁵ publishes everything on the website www.e-disclosure.ru.³⁶
- Angarsk Integrated Electrolysis Chemical Plant JSC is one of the few organizations which continues to publish information on their own website.³⁷ All of the necessary information is available in the appropriate amount.
- Atomkomplekt JSC³⁸ – discloses everything on their profile on www.e-disclosure.ru.³⁹
- Giredmet JSC⁴⁰ also publishes all of the obligatory information on the specialized website.⁴¹
- Atomtechenergo JSC⁴² uses their profile on www.e-disclosure.ru⁴³ to publish the information. All of the necessary input is present.

³⁵ <http://akmeengineering.com>.

³⁶ <http://www.e-disclosure.ru/portal/company.aspx?id=26062>.

³⁷ http://www.aecc.ru/index.php?option=com_content&view=category&layout=blog&id=50&Itemid=158.

³⁸ <http://www.atomkomplekt.org>.

³⁹ <http://www.e-disclosure.ru/portal/company.aspx?id=32842>.

⁴⁰ <http://www.giredmet.ru>.

⁴¹ <http://www.e-disclosure.ru/portal/company.aspx?id=29372>.

⁴² <http://www.atech.ru>.

⁴³ <http://www.e-disclosure.ru/portal/company.aspx?id=32842>.



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Openness of Procurement⁴⁴

The state-owned enterprise and all of its subsidiaries use their page on the universal website on government procurements, zakupki.rosatom.ru.

In the corporate policy document, everything that is connected to the procedures is very highly regulated. Every action of the organizer is usually accompanied by a related publication on the website. It is worth noting that notifications about the realization of any form of competitive selection (auction) can be published in mass media in addition to making it available on the website.

In open proposal requests, open auctions (non-electronic form) and other competitions, participants have the right to take both audio and video recordings of the entire process. In the policy document, it doesn't talk about the necessity of getting permission in advance or even warning the purchaser beforehand. Besides that, the purchaser can put up a live video stream of the envelope-opening ceremony on his website.

As a result of our research, Rosatom receive the highest available amount of points and first place in our rating.

Deposit Insurance Agency

Special Aspects of the Administration

⁴⁴ For a detailed analysis of procurement disclosures and ratings of state-owned enterprise, see the appendix to this report.



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The Deposit Insurance Agency, created in 1999, was the very first state-owned enterprise. Previously, it was named the Agency for the Restructuring of Credit Organizations. The agency came about after the economic crisis of 1998, but in June of 2004, the legislature liquidated it. The Deposit Insurance Agency was created at the end of 2003, when Federal Law 177-F3 “On Insuring the Deposits of Private Persons in Banks of the Russian Federation” was passed.

The Board of Directors of the Deposit Insurance Agency is made up of 13 members and is led by the Minister of Finance of the Russian Federation – A.G. Siluanov. The administration is made up of eight members and is headed by Y.O. Isaev, who recently moved from the State Duma of the Russian Federation.

The leadership of the state-owned enterprise publishes reports about its revenue and assets on its website and fulfills its obligations given by the decree by the President of the Russian Federation.⁴⁵

Openness of Corporate Information

On the Deposit Insurance Agency’s website, there is no data available on the compliance policies of the corporation. There is no commission for resolving conflicts of interest and other similar issues. The Deposit Insurance Agency has also not declared the existence of any subsidiaries.

Openness of Procurement

⁴⁵ Presidential Decree 561 (18 May 2009)



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The State-Owned Enterprise has its own website for publishing information about procurement at <http://www.asv.org.ru/orders/>. A detailed analysis of availability of information about government procurement and rating of state-owned enterprises can be found on the official website of Transparency International – R. The Deposit Insurance Agency received a second-place rating of the six enterprises in the survey.



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The Foundation for Cooperative Housing Reform

Special Aspects of the Administration

The initial asset contribution of the Russian Federation to the budget of The Foundation for Cooperative Housing Reform was 240 billion rubles in December of 2007. This money was received by the federal government as a result of taxes paid by the former oil company Yukos and from its final sale after bankruptcy. In 2010, an extra 15 billion rubles was allocated to the Foundation.

Apart from that, The Foundation for Cooperative Housing Reform uses income from the emergency housing fund in the temporary surplus account for financing regional building-renovation programs and rehousing of local citizens. Already 11.7 billion rubles have been sent out to regions of Russia. Initially, the Foundation was meant to be subject to liquidation by 1 January 2013. The decision was made to extend its work until 2015 and, more recently, until 1 January 2016.⁴⁶

The leadership of The Foundation for Cooperative Housing Reform is made up of a supervisory council of 17 members, which is chaired by the Minister of Regional

⁴⁶ According to Paragraph 23 Article 1 of Federal Law 270-F3 (25 Dec 2012) on Amendments to the federal law on the Foundation for Cooperative Housing Reform.



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Development of the Russian Federation – I.N. Slyunyaev. Slyunyaev also happens to be the Chair of the Supervisory Council of Olympstroy.

Is he allowed to occupy the same post in two state-owned enterprises? The law circumvents this issue, but logically, this conflict should be discussed in a Code of Ethics or policy document about the supervisory council. There are no such documents on the Foundation's website. In theory, those documents should be publicly accessible, as they are characterize the purity of business practices that investors look for. According to Part 4 Article 7 of Federal Law 185-F3 (21 July 2007) on The Foundation for Cooperative Housing Reform, the supervisory council is determined by the government of the Russian Federation.

In contrast from the supervisory council of Rostec (Point 9 Article 11 On Rostec), the Chairman of the Foundation does not wield the deciding vote in the case of a tie. According to Part 2 Article 7 of Federal Law 185-F3, participation in the supervisory council of the Foundation is on a voluntary basis and its members are not on the staff of the organization.

It is imperative to note that even if the head of the supervisory council of two state-owned enterprises (in this case, Slyunyaev) does not receive money for his efforts, he could certainly have conflicting interests in the case of transactions between the two companies.

Openness of Corporate Information

The Foundation for Cooperative Housing Reform has not published any information about whether or not it owns any subsidiary organizations. Its website is also lacking compliance policies and a commission for the resolution of conflicts of interest,



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or any other issues for that matter. These factors, along with the other issues, lead the Foundation to occupy the next to last place on our rating.

Openness of Procurement⁴⁷

The Foundation for Cooperative Housing Reform and Vnesheconombank share the last place of the rating in regards to observation of government demands of procurement reporting. Publishing information about ongoing and completed procurements, the Foundation does not declare its plans or monthly reports. In contrast to other state-owned enterprises, the information in question during our investigation was not was neither posted on the official website for government procurement, nor on the Foundation's website. This casts a shadow of doubt on the existence of these documents.

However, the lowest score in the rating does not prove egregious violations of procurement conduct. As we noted earlier, state-owned enterprises voluntarily publish information about ongoing and completed procurement deals. Publishing the information would only prove effective business operations.

We also note that the absence of accessible annual plans hampers potential participants from preparing for the procurement auction. This can adversely affect the results of the selection procedure because candidates, which would ordinarily have the best proposals, would not have time to prepare all of the necessary documents.

⁴⁷ For a detailed analysis of procurement disclosures and ratings of state-owned enterprise, see the appendix to this report.



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Vnesheconombank

Special Aspects of the Administration

Vnesheconombank is directed by a supervisory council whose chairman is appointed by D.A. Medvedev. The council is made up of high-ranking government



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diplomats – five vice ministers and one minister from the administration of the Russian Federation. In accordance with Federal Law 82-F3 on Bank Development (passed on 17 May 2007), members of the supervisory council of Vnesheconombank are appointed by the government of the Russian Federation to 5-year terms. However, being members of the council does not necessarily oblige them to be in the enterprise. In the Federal Constitutional Law 2-FK3 (passed on 17 December 1997) on the Government of the Russian Federation, among limitations connected to tenure in the Russian Government, there is a note about how members in the administration are not entitled to participate in the management of a business entity regardless of its legal structure (Article 11). On the website of Vnesheconombank there is no information about whether or not they pay the members of the supervisory council or not.

The board of directors of the VEB is made up of 12 members and headed by the Chairman of Vnesheconombank – V.A. Dmitriev, who is simultaneously occupies various administrative posts in 33 organizations⁴⁸ and is on the Board of Directors of Inter RAO UES JSC.

In accordance with the policy document on remuneration and compensation to members of the Board of Directors of Inter RAO UES JSC, members do receive remuneration.⁴⁹ Using this information, we can assume that Mr. Dmitriev receives payment from both organizations. Moreover, contracts exist linking business deals between these companies and that is indicative of a conflict of interest.⁵⁰ The following is a list of several instances of such contracts:

⁴⁸ Pages 103-104 of the 2012 annual report of Inter RAO UES JSC

⁴⁹ <http://www.interrao.ru/upload/docs/Renumeration.pdf>.

⁵⁰ A definition of conflicts of interest is in Part 1 Article 19 of Federal Law 79-F3 on Civil Service and in Article 10 of federal law 273-F3 on Anti-Corruption Activities.



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- In a project in 2008, Inter RAO UES JSC used money borrowed from Vnesheconombank (VEB) to buy stocks in Moldavskaya GRES, Ltd. The total sum was 163 million rubles.⁵¹
- Inter RAO UES JSC and Vnesheconombank signed an agreement giving Inter RAO UES JSC a line of credit of 3.7 billion rubles. They have until the third quarter of 2018 to pay it back. This credit is being used to finance the construction of the second thermal power plant in Sochi. The expansion of plant is one of the many projects, which is developing Sochi for the 2014 Winter Olympics.⁵²
- On 18 June 2010, Inter RAO UES JSC and Vnesheconombank signed an agreement to buy stocks in the framework of issuing new shares to Inter RAO UES JSC in secret. In accordance with the terms of the contract, Vnesheconombank transferred Inter RAO UES JSC 21.278 billion rubles, which were used to invest in the construction of Urengoy GRES through the participation of Inter RAO UES JSC in an announcement of additional issues of stocks JSC «ОГООКОП-1.»⁵³

The second example is connected with the vice chairman of Vnesheconombank (VEB), A.B. Ballo. He received his post in March 2012, but in 2008, he was suspected of breaking the law according to Part 4 Article 159 UKRF, using an fraudulent credit scheme to embezzle funds distributed by VEB and the company “Eurasian.” The case was reclassified to Part 1 Article 201 – Misuse of Official Duties. On 17 May 2013 the

⁵¹ <http://veb.prognoz.ru/page?group=directions&id=1003948677>

⁵² <http://info.finam.ru/analysis/newsitem3838A/default.asp>

⁵³ http://www.interrao.ru/press-center/news/?ELEMENT_ID=764



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presidium of the Court of the City of Moscow revoked the decision on the legality of its criminal proceedings.⁵⁴

A.B. Ballo is also a member of the Board of Directors of “Northern Lights,” a company working on a project to develop a port in the Azov Sea. In 2007, Ballo took part in the allotment of 8.3 billion rubles of VEB funds to finance his project. The work was started⁵⁵ and in March 2013, VEB approached the Arbitration Court of Moscow with a lawsuit of 8.3 billion rubles.⁵⁶

The third example is a conflict of interest with M.I. Poluboyarinov, who is the vice-chairman of the board of directors of VEB and also a member of the board of directors of Rusgidro. He receives remuneration for his work. In 2010, VEB gave 28.1 million rubles Rusgidro’s construction of Boguchanskoy hydroelectric station.⁵⁷

The outlining of these examples does not allow us to confirm whether or not there were there were conflicts of interest by company’s definition because the required documents outlining a Code of Ethics is nonexistent. However, we can say for sure that an affiliation exists.

The Russian legislature uses varying terms in regards to conflicts of interest.⁵⁸ Legislation refers to subjects, who are in a conflict of interest, differently depending on their classification. Individuals are called affiliated persons (взаимозависимыми

⁵⁴ <http://polit.ru/news/2013/05/17/ballo/>

⁵⁵ According to SPARK, the company «Northern Lights» has been in the red since 2008 (from 692 million to 1.3 billion rubles).

⁵⁶ <http://www.rospress.com/finance/11998/>.

⁵⁷ <http://veb.prognoz.ru/page?group=projects&id=2000908606>.

⁵⁸ The closest thing to an official list of conflict of interests in public office, is in a Ministry of Labor letter (18-2/10/1-2088) on 15 Oct 2012 «An Overview of types of cases of conflict of interests in Federal and Municipal Service of the RF and their Regulations.



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лицами); enterprises are called affiliates (аффилированными); anti-monopolies are simply called group entities (группой лиц); and administrations are called mutually interested bodies (заинтересованными лицами). Due to this, suspicious deals go unnoticed if no agencies take a special interest.

Openness of Corporate Information

On the official website of the Vnesheconombank, it is possible to find information about 18 subsidiary organizations. These subsidiaries are trust funds, hedge funds, investment funds, insurance funds and banking organizations. A random check of a few of these shows that they make their information accessible and fulfill the obligations according to the law.

Openness of Procurement⁵⁹

A policy document about procurement⁶⁰ has been developed in accordance with the standards of Federal Law 223-F3 on Procurement of Goods, Work, and Special Services of Legal Entities,” as well as with the GKRF and other normative legal acts.

Despite the fact that Vnesheconombank should declare its procurements on the official website of government procurements according to Federal Law 223, it almost completely ignores the law. Although it requires monthly plans to be published, the only procurement plans that are available for VEB are April – August 2012. Clearly,

⁵⁹ For a detailed analysis of procurement disclosures and ratings of state-owned enterprise, see the appendix to this report.

⁶⁰ <http://www.veb.ru/common/upload/files/veb/custom/zlregulations.pdf>.



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information about VEB's procurement is not fully transparent and does not fulfill the requirements under the law of trading and auctions.

Recommendations

On the foundation of the given indicators, we make the following recommendations:

1. All state-owned enterprises should be required to declare their procurement data on the portal www.zakupki.gov.ru.
2. Rostec and Rosatom must create policies to clarify their legal ethics and regulate relationships of their supervisory councils, especially in regards to payment to members.
3. Rostec should correct the typos in its policy document about procurement and also publish the data on completed procurement auctions, as well as monthly procurement reports.



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4. The Foundation for Cooperative Housing Reform should also publish the data on completed procurement auctions, as well as monthly procurement reports.
5. All of the state-owned enterprises need to develop a policy document to determine how to deal with conflicts of interest, which specifically forbids working for more than one such organization, or its affiliates, at a time. The enterprises should also require members of their respective supervisory councils and boards of directors to publish declarations of incomes and expenditures, as well as of their possible conflicts of interest.