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#### PREREQUISITES AND CONDITIONS FOR IMPROVEMENT OF PRIVATIZATION MECHANISM OF REGIONAL INDUSTRIAL ENTERPRISES

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#### *Abstract*

The paper is devoted to the analysis of the privatization activity of the industrial enterprises in the Chechen Republic over 2013-2018. The authors noted that the importance of the privatization covers the change of the form and entity of freehold interest in the property, transfer of state property to citizens and legal entities, that is, to private property. Thus, according to the authors, there is a layer of new owners, and the state is freed from costs on maintenance and management of inefficient production. In this regard at the present stage of industrial development in the Chechen Republic the problem of privatization of hundreds of unprofitable or inefficient state unitary enterprises, public enterprises and state institutions is extremely relevant. Historical sources demonstrate that the Chechen economy of past centuries was based on harmonious interaction of various forms of ownership: private and public ownership of land, real estate, products of labor. The development of efficient economy of the Chechen Republic is only possible in case of dynamically developing and competing economic entities of various forms of ownership. The subject of the study includes the organizational and economic relations resulting from the improvement of privatization of industrial enterprises. The major targets are specified in the forecast plans on privatization of state property of the Chechen Republic: optimization of composition and structure of state property; privatization of state property beyond the state functions of the Chechen Republic; structural transformations in the relevant branches of economy; reduction of unprofitable state unitary enterprises.

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## 1. Introduction

The relevance of the study is bound to the fact that the dynamic development of the economy is based on the combination of entrepreneurial freedom, social justice and competitiveness. The development of efficient economy of the Chechen Republic is only possible in case of dynamically developing and competing economic entities of various forms of ownership. In this regard at the present stage of industrial development in the Chechen Republic the problem of privatization of hundreds of unprofitable or inefficient state unitary enterprises, public enterprises and state institutions are extremely relevant. The principle of inviolability of private property was dominating in Chechnya from time immemorial. The infringement of someone else's property, including cattle, even a dog, was perceived as a blood offence and required moral and material compensation. According to the Ministry of Property and Land Relations of the Chechen Republic, at the end of December, 2012 the register of state property of the Chechen Republic included 796 state-owned legal entities and with the state share in the authorized (share) capital, which on property rights were assigned the state property with the total book value of 57.7 billion rubles, including the cost of state unitary enterprises amounting to 23.5 billion rubles (Ministry of Property and Land Relations of the Chechen Republic, 2012-2019). Over 7 years of economic activity (2012-2018) hundreds of state unitary enterprises transferred 84.8 million rubles of their profit into the budget of the republic (Table 01).

**Table 01.** State unitary enterprises of the republic and transfer of funds to the budget

Year	Number of SUE and public enterprises (at the year-end)	Share of SUE profit transferred to the budget of the Chechen Republic, RUB, thou.
2012	387	2 039,0
2013	436	19 723,8
2014	327	7774,9
2015	327	16842,2
2016	319	11298,1
2017	308	23 478,3
2018*	274	3 654,6
Total received in the budget of the Chechen Republic		84 810,9
Source: (Ministry of Property and Land Relations of the Chechen Republic, 2012-2019).		

## 2. Problem Statement

Obviously, with such industry it was impossible to overcome a problem of high subsidized dependence of the state budget of the Chechen Republic on the federal budget (Idigova, Betilgiriev, Taymaskhanov, Mintsaeve, & Bataev, 2016). In this regard, on 22 March 2013 the parliament of the republic finally adopted the law of the Chechen Republic No. 3-RZ On privatization of state property of the Chechen Republic (Republican law no. 3-RZ , 2013). Since 2005 deputies and scientists-economists of the republic have been making the first attempts to initiate the law on privatization. However, they failed since the legal department of Presidential Administration and the government of the Chechen Republic were blocking the law (Bill of the Chechen Republic On privatization of state property of the Chechen Republic). The Administration adduced various arguments referring to inopportuneness of broad privatization of property, including that “the law on privatization will give a free hand to economically active part of the population.

Finally, the officials decided to give a bigger space to business by reforming the property relations in the industry. But time was lost and the ranking of low investment attractiveness of the Chechen Republic became stable (Idigova, Khadzhieva, Chazhayev, & Dudaev, 2018; Idigova, Khadzhieva, Chaplaev, & Dudaev, 2019).

### **3. Research Questions**

The subject of the study includes organizational and economic relations resulting from the improvement of privatization of industrial enterprises.

### **4. Purpose of the Study**

The major targets are specified in the forecast plans on privatization of state property of the Chechen Republic: optimization of composition and structure of state property; privatization of state property beyond the state functions of the Chechen Republic; structural transformations in the relevant branches of economy; reduction of unprofitable state unitary enterprises. It is planned that “the maximum budget effectiveness of privatization of each object will be reached due to decisions on the privatization manner and the initial price of the privatized property on the basis of the analysis of the current economic situation, independent property valuation, full inventory and the financial audit of a state unitary enterprise” (Decree of the Government of the Chechen Republic, 2015; Decree of the Government of the Chechen Republic, 2016).

### **5. Research Methods**

The above tasks were solved on the basis of general scientific methods within the comparative logical and statistical analysis.

In compliance of the Federal Law No. 159-FZ of 22 July 2008 On features of the alienation of the real estate being in state or municipal property and rented by subjects of small and medium business and on the introduction of amendments to certain acts of the Russian Federation, the relevant proposals were sent to 20 tenants in order to exercise their preemptive right. According to the preemptive right, 7 state property purchase/sale agreement were signed (Federal Law no. 159-FZ, 2008). In 2013, the income into the budget of the republic from privatization of 5 out of 7 specified objects made 11,686.6 thousand rubles (Federal Law no. 178-FZ, 2001) On privatization of state and municipal property // consultant.ru). The liquidation of state organizations was launched at that time. As of 31 December 2013, in total 65 legal entities were liquidated, including 48 state unitary enterprises and 17 public institutions subordinated to the following: 42 enterprises – Ministry of Agriculture of the Chechen Republic; 6 enterprises – Government of Chechen Republic; 8 enterprises – Ministry of Economic Development of the Chechen Republic; 2 enterprises – Ministry of Industry and Energy of the Chechen Republic; 3 enterprises – Ministry of Property and Land Relations of the Chechen Republic; 1 enterprise – Ministry of Press of the Chechen Republic; 1 enterprise – Ministry of Culture of the Chechen Republic; 1 enterprise – Ministry of Education and Science of the Chechen Republic; 1 enterprise – Ministry of Transport of the Chechen Republic (Ministry of Property and Land Relations of the Chechen Republic, 2012-2019). As of the end of 2014 the income to the budget of the Chechen Republic from privatization of 90 real estate units in 2013 made 79.3 million

rubles, including income from privatization of 6 real estate units – 11.5 million rubles. In 2015, 196.5 million rubles were transferred to the budget of the Chechen Republic from privatization of 119 real estate objects. At the end of 2015 the state property register of the Chechen Republic included 514 institutions and 327 enterprises, out of which 11 institutions and 66 enterprises respectively were under liquidation, reorganization and bankruptcy (Ministry of Property and Land Relations of the Chechen Republic, 2012-2019).

## 6. Findings

Following the 2016 results, the income from privatization of real estate objects to the budget of the Chechen Republic made 91.6 million rubles. In total, 43 state property objects of the Chechen Republic were privatized (Ministry of Property and Land Relations of the Chechen Republic, 2012-2019). The following state unitary enterprises were subject to privatization within the Forecast Plan (Program) on privatization of state property of the Chechen Republic for 2016 (Table 02).

**Table 02.** Objects of state property privatization of the Chechen Republic

No.	Company	Location	Fixed assets value, RUB, thou.	Average number of employees, ppl.
1	SUE Chechentsement	Shalinsky district, Chiri-Yurt village	2 284 499,0	750
2	SUE Alkhan-Kala Woodworking Plant	Grozny district, Alkhan-Kala village, 30Elevatornaya Str.	290 915,0	33
3	SUE of the Ministry of Industry	Grozny, 1 Tramvayny Lane	95 187,0	37
4	SUE Orgtekhnika	Grozny	131 618,0	46
5	SUE Avtomatstrom Pilot Plant	Grozny, 6 Butenko village	173 602,0	11
6	SUE Krasny Molot Grozny Plant	Grozny, 4 Zelyonaya Str.	3 266,0	2
7	UE Serlo Garment Factory	Grozny, 4 Gikalo Str.	13 160,0	1
8	SUE Druzhba Cardboard Factory	Grozny, 7 Pitomnika Str.	116 137,0	16
9	SUE Promavtomatika	Grozny	46 481,0	6
10	SUE Spetsavtomatika	Grozny	81 182,0	14
11	SUE Medinstrument Plant	Gudermes, 7 Proyezzhaya Str.	211 443,0	5
12	SUE Electromechanical Plant	Grozny, 23 Boyevaya Str.,	155 160,0	20
13	SUE Experimental Furniture Factory	Grozny, 1 B. Khmelnytskyi Str.	51 525,0	15
14	SUE Khladokombinat	Grozny, 2 Bazhov Lane	269741,0	64
15	SUE Plodoovoshch Production Trade Enterprise	Grozny, 3 Kopernik Str.	146878,0	14

16	SUE Ippodromny Production Mall	Grozny, 141 A. Aydamirov Str.	45 906,0	8
17	SUE Seeds Processing Plant	Achkhoy-Martan, A. Kadyrov Str.	126 043,0	2
18	SUE Plemreproduktor Poultry Farm	Achkhoy-Martan, 10 Naberezhny Lane	189 472,0	4
19	SUE Marta Agroplant	Achkhoy-Martan, 4 Vinsovkhoznaya Str.	43 260,0	8
20	SUE Samashkinsky Cannery	Samashki, 44 Greydernaya Str.	254 534,0	1
21	SUE Bakery Plant	Argun, 2 Gudermesskaya Str.	572485,0	1
22	SUE Sugar Plant of the Chechen Republic	Argun, 2 Sakhzavodskaya Str.	1740000,0	410
23	SUE Construction Materials Plant	Argun, Sakhzavodskaya Str.	171593,0	52
24	SUE Pishcheprodukt – 2 branches	Grozny, 71 Internatsionalnaya Str.	10120,0 17600,0	4
25	SUE Vinkhoz Avangard	Naursky district	84998,0	28
26	SUE Vinkhoz Kalinovsky	Naursky district, Novoterskoye village	24530,0	9

Source: (Degree of the Government of the Chechen Republic, 2015; Degree of the Government of the Chechen Republic, 2016).

In 2017, in total 81.2 million rubles were transferred to the budget of the Chechen Republic from privatization of real estate objects (Ministry of Property and Land Relations of the Chechen Republic, 2012-2019). In February, 2017 the regular Forecast Plan (Program) on privatization of state property of the Chechen Republic for 2017, which included 203 real estate units, was adopted. According to the Federal Law No. 135-FZ of 29.07.1998 On appraisal practice in the Russian Federation, the Ministry of Property and Land Relations of the Chechen Republic applied for the appraisal of 201 real estate units. Data on 198 real estate units were sent to the Property Fund of the Chechen Republic for the above measures. As a result, 82 real estate units were privatized over a year, including 3 real estate units privatized on preemptive right.

As of 1 September 2018, 72.0 million rubles were transferred into the budget of the republic (Progress Report of the Ministry of Property and Land Relations of the Chechen Republic for August, 2018). In 2018, the government listed 100% of JSC Chechentsement shares – stock value made 1.239 billion rubles and 100% of LLC Promavtomatika shares – stock value made 65.8 million rubles (Degree of the Government of the Chechen Republic, 2017). Thus, during 2013-2018 only 4 large state unitary enterprises – SUE Chechentsement, SUE Promavtomatika, SUE Orgtekhnika, SUE Spetsavtomatika – completed their organizational and legal reorganization. However, the change of the owner did not happen. The owner of 100% property of LLC Promavtomatika, LLC Neftemashservice, LLC Artpolimer and LLC Chechentsement was still the Chechen Republic. As we know, the importance of privatization covers the change of the form and entity of freehold interest in the property, transfer of state property to citizens and legal entities, i.e. to private property. Thus, there is a layer of new owners, and the state is freed from costs on maintenance and management of inefficient production. The transfer of the right must be registered. Until the completion of state registration, the privatization is not considered valid. The modest result of

privatization of state unitary enterprises in 2013-2018 may be explained by the permanent economic crisis of 2008-2012, devaluation of national currency in 2014, recession in the Russian economy leading to the economic ruin of the majority of businesses in the Chechen Republic.

## 7. Conclusion

Hence, it is urgent to solve the problem of increasing the investment attractiveness of the republic. First of all, this includes the reduction of administrative risks, development of a banking system, creation of independent judicial system (including arbitration court). Among the production factors, the need for the reduction of energy rates and the need for cargo transportation to and from the republic by rail shall be especially highlighted. The overdue start of privatization in the Chechen Republic led to such negative consequence for businessmen of the republic as the loss of historically developed market niches. Businessmen of effectively developing regions of Russia tapped into numerous markets, where during the Soviet period the producers of the Checheno-Ingush Autonomous Soviet Socialist Republic were successfully presented: market of oil and gas equipment, market of food equipment, market of construction products, market of instrument making, markets food industry. It is difficult or even impossible for the newcomers to enter these markets in 2018.

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