

Endowment in Russian regional university

Tatiana Yurievna Krasikova
*Department of Economics and Digital
 Business Technology*
*Irkutsk National Research Technical
 University*
 Irkutsk, Russian Federation
 krasikovat@gmail.com

Vyacheslav Lvovich Prigozhin
Department of Management
*Irkutsk National Research Technical
 University*
 Irkutsk, Russian Federation
 prigozhins@mail.ru

Dmitry Vladimirovich Ognev
Department of Management
*Irkutsk National Research Technical
 University*
Irkutsk State Transport University
 Irkutsk, Russian Federation
 Odv1974@rambler.ru

Abstract - The article is devoted to the development of the endowment in Russian universities, it focuses on their problems and perspectives of regional development. Much attention is given to terminology to the participants of the fund-in-trust. The article gives a detailed analysis of groups of partners of endowment: graduates and family, business representatives, university, also it analyzes their role in the revitalization of the endowments. It needs to develop a philanthropy tradition, to develop the idea of "family connection" with universities. Endowment fund and its development are a matter of complex approach that required institutional conversation. Much attention is paid to the fact that promotion of funds is most sharply for a regional university that are affected by the problem of «regional inequality».

Keywords - regional educational system, regional universities, endowment fund, sources of financing in university.

I. INTRODUCTION

Due to modern transformation of Russian universities (transition from traditional ("classic") to an entrepreneurial type ("innovation") issue of diversified fund of the university became relevant. One of the sources of this kind of fund is an endowment (or if you use the Russian legislation terminology – fund-in-trust), it is a new one for Russian universities. This paper considers Russian specificity of endowment (fund-in-trust) and its barriers (including "cross-cultural") for development.

Endowment is intended for use in non-commercial purposes for the financing of education system, medicine and culture sphere. In theory the source of endowment considers donations mainly. Despite the widespread practice of endowments in the foreign education (not just in higher education only), in Russia the funds have started operating since 2007 (when the Federal Law 275-FL "On the formation and applying of fund-in-trust in non-profit organizations" and the Federal Law 276- FL "On making amendments in legislative acts of the Russian Federation in connection with the adoption of the Federal Law "On the formation and applying of fund-in-trust in non-profit organizations" were adopted) [1], [2]. These acts regulate the creation, registration and operation of funds-in-trust. At the same time amendments were made to the Tax Code, they allow exempting revenue from fiduciary management from income tax.

In 2012 the donators were provided with additional benefits [3]. Russian lawmakers' attention to endowment is

due to modern government policy in the sphere of higher education, it is rethinking the role of universities (especially the status of the national research and federal universities) for the development of regional and national innovation systems, the necessity of reducing budget for universities and thus university management have to draw-up diversified fund in the university.

II. REVIEW OF LITERATURE

Russian scientists Ya. Mirkin with a group of authors K.B. Bahtaraeva, A.V. Levchenko, M.M. Kudinova, involving T.V. Zhukova [6] with their paper "Fund-in-trust (endowment) of state and municipal educational institutions: the organization of the activities, status and perspectives. Guide for practice" must be noted among Russian papers of such themes. Separately we should note the study [10], which released by the Department of Strategy and Development "Capital" in 2013 - "Creation of endowment funds in Russian universities". This paper was dedicated to the issue of determining the interest and commitment of universities in forming the endowment funds for their future financing activities. However, despite the actual matter, the theme of Russian endowments with an analysis of barriers to the improvement of the establishment and functioning of endowments is paid a little attention [5].

Despite the relevance, special literature is not relevant. At the end of 2017, 177 endowments worked in Russia, of which 60 funds were not formed. So, these are "shells" without money. The top three endowments are ones of the European University at St. Petersburg and MGIMO: approximately 1.5 billion rubles each.

III. RESULTS AND DISCUSSION

In the past few years, endowments are no longer a metropolitan phenomenon solely. Tyumen follows Moscow and St. Petersburg in terms of the number of endowment funds. Regional development will be the growth driver for the funds.

Vladimir Potanin`s Charity Foundation conducts an educational program that also helps the development of endowments in the regions.

But not all region endowments could be an effective tool for social transformation. Sometimes no endowments can change the situation and it's better not to go there and the government is the main actor. More efficiently to use target capital in regions with average economic indicators.

Traditionally the largest funds belong to universities. This is a worldwide practice because it is easy for them to attract donations. Often outstanding graduates associate their success with their university, and they are ready to share money with them. But the largest endowment in Russia is the Skoltech fund with 4.7 billion rubles was formed at the expense of state-owned companies.

In total, the amount of capital in the remaining 117 funds is 24.9 billion rubles. In comparison, there are 790 endowments in the USA with a total capital of about 2 trillion rubles (in dollar equivalent). The large endowment of colleges and universities is an American phenomenon: tax breaks for both donors and targeted funds themselves have been very helpful in expanding such structures. Compared with the largest US funds, endowments of higher educational institutions in Europe are smaller by an order of magnitude: for example, the Cambridge fund is about 2.2 billion pounds, Oxford is about 2 billion ones.

The total assets of endowments of 809 universities and colleges whose leaders are members of the American National Association of Colleges and Universities (NACUBO; not every educational institution has funds) amounted to \$ 566.8 billion in 2017. Association - about \$ 128 million.

Critics of endowment funds have two main arguments against excessive accumulation. The first is that the future needs less money than the present. In their opinion experience shows that universities over time become richer due to the introduction of intellectual activity results and new learning and management technologies, the development of specialization and the holding of fundraising campaigns. The second argument is that the constant increase in the value of endowment assets protects the university from market competition. As soon as the reinvested income becomes more than other investments in the endowment, the university stop to be interested in successful graduates and teachers, in additional funds. So the administration, at least in theory, becomes less responsible for its actions. Endowment managers are often criticized for being reinsured by reinvesting too much money in the endowment (usually about half of the income), not spending the main "body" of the endowment, which would significantly reduce the cost of training, etc.

Currently, we found there are the following financing resources of activity of Russian universities:

1. *Fund of a corporation – university partner in research;*
2. *Budget funding;*
3. *Non-budget funding;*
4. *Fund of the university;*
5. *Endowments.*

Initially, it is necessary to define the terminology used in this paper. It is about how we could name participants who are involved in the formation and operation of endowments by their contributions - donors or donators or we must use another term. The difficulty is that in appropriate studies these participants are called in different ways: donors, donators, sponsors. However, the sponsor is usually called a

participant who is involved in any project (including financial) on any specific conditions. Thus if we use term "sponsors" we violate the principle of voluntary participation in the endowment. Donors and donators are called parties that participate on a "pro bono basis". However, in a situation with an endowment we have compensatory nature of participation - the parties involved in the formation of an endowment fund will benefit in any case: tax incentives, or direct or indirect participant in the management of the university, or we mean so-called "reputational benefit" that is also important for the formation of Institute of reputational mechanisms in Russia in the future. Seems to us it is useless to take the term "investors" because endowment fund is a project with long-term capital. This capital is invested and university acquires a percentage of revenue only from the allocation of financial resources of endowment fund. After the transfer of funds in the endowment they become the property of the endowment fund. The participant doesn't acquire a percentage, because this participant transfers funds to the endowment and they did not belong to him. From an investment logic he gets nothing, moreover, the fact he is in a financial loss.

So in our work we use the term "partners in an endowment" to emphasize the equality of all participants involved in the endowment fund of the university

Traditionally, the following groups are partners in an endowment:

1. *Graduates and their family members.* This is the most difficult group to motivate their participation in the endowment. Here we deal with the human factor. Family tradition to partner with the university plays an important role in this matter. In Western universities "dynastic" tradition of studying at university keeps but in Russia this practice is absent. Russian wealthy parents try to send their offspring to study abroad or to the more prestigious universities that are geographically located in the central areas of Russia. Thus, the regional universities remain without "nepotism" supporting, except the category of graduates which belong to "regional patriots". Alumni associations seemingly could solve the problems to establish long-term relationships between the university and former students, but this kind of associations are just a "dead link" in the infrastructure of the university. Faculties and department of the university establish relationships with alumni by their own forces in the absence of a centralized policy of the university. Certain program of development and supporting of the relations between the university and its graduates that help to provide alumni involvement in university activities and direct/indirect participation in university management must be designed by the university.

We would like to take attention about the influence of society on the social-oriented economic objects (the university as a generator and transmitter of knowledge refers specifically to such objects, being an economic agent at the same time).

2. *Corporates, SME and other representatives of the industrial and "real" sector.*

Although the initiative to establish an endowment institute in Russia belongs to the representatives of this group the industrial sector in the mass continues to

demonstrate distrust to new investment method. In particular Russian representatives of this group keep the sceptical attitude to the endowment in the Russian universities [7]. The fact that the appearance of endowment practice in Russia matches with the global financial crisis in 2008 also impact negatively on integration of industrial sector into a diversified fund of the university. Also, the group may not understand quite the importance of the endowment fund. Currently, the industrial sector provides financial assistance to universities as scholarships to students, grants to scientists (BP scholarship program is for students studying for degrees in energy and economics launched in 2011). Also, the group could involve in the operation of joint training centers (cooperation between Ryazan State Radio Engineering University and EPAM Systems) [8]. Due to the transparency of these activities, they could be controlled by the business much easier than participating in endowment. However, the appearance of an endowment fund at the university, as well as participation in the development of the university, leads to much greater participation by the business sector in the formation of a joint policy of scholarship program, for example. Moreover, there is the problem of understanding the importance of the participation of the business sector in social projects and charity projects (in the world participated in the endowment fund is equivalent to participation in charitable projects taking into account the financial gratuitousness). When we are talking about financial planning matter of evaluation of effectiveness of social projects are usually complicated. And you can talk about the result, but not about the effect [4]. Another alertness is caused by the size of the endowment. Financing of the university is exclusively derived from income that the university get after fund replacement (percentage or income from investments) so if we want to have an actually well-working endowment in the long-time perspective we need to understand that the size of fund should be high in enough way [9]. Moreover, there are another factors affecting the success of the fund – regional inequality thus regional financial infrastructure. Not all Russian regions have enough potential to provide their leading university by business sector with a sufficient volume of available funds.

Endowment operation according to domestic legislation also keep certain distrust. It is fiduciary management with appointing a third party to manage the total assets especially independence of the company. Board of trustees of the university, of course, can provide control for a period of cooperation with the fiduciary manager, but the final decision is made by the company and this moment is not attractive for representatives of the industrial (business) sector for many reasons. There are many questions related to fundraising. In particular, there are a very limited number of Russian experts in fundraising.

Endowment is a long-term investment project. Any risky strategy is unacceptable [11]. Moreover, inflation is another point of attention in Russian financial management. Nominal capital must not fall, but at the same time it should provide some growth that outstripped inflation rate rising. In addition, the effect of participation in the formation of the endowment will be reached not soon – we have left-off effect. It is “non-active” management for the industrial (business) sector and the question of the competence of the

fiduciary manager is quite important. It is a cause the distrust to the industrial sector that used to rely on accurate forecasts and safeguards, especially in financial terms. The cooperation between Fiduciary Manager and the Board of Trustees of the University with supervisory functions is still a new model for Russia. Hence the question of integration of all partners of an endowment with different motivation is particularly actual [12].

Additionally, in Russia charitable foundations keep inertness to the matter as opposed foreign that traditionally played an active role in a foreign endowment fund. This is due to the overall institutional underdevelopment of this type of activity.

3. *University.* Firstly it should be noted that the main reasons for the “slow-down” in process of dynamic development of endowment institute in Russia are a mustiness of university leadership, their fear behind new forms of financing, lack of education in the field of fundraising, as well as an understanding of the need of, and hence, the fear of internal organizational rearrangements within the university [13]. In 2013 in most Russian universities there is no program to raise funds and donations, to attract the philanthropists into university fund. Secondly, as in the case of the industrial sector, there is distrust to the model of “non-active” management of endowment fund (fiduciary manager). Thirdly, it is legislatively prohibited the use of its own funds for the target capital formation (in contrast to the USA, where such source is permitted). Hence, in Russia it is allowed the creation of “pure” endowment funds, while in the world there are at least 3 types of endowment funds:

- endowment funds;
- target endowment funds, when the entire amount or part of the amount can be used after a certain period of time or in the event of a specific event;
- quasi-endowments - funds of the university (not of donor’s funds or funds of any external partners) that the university decided to use as a permanent/nominal capital.

Some optimistic about external factors such as shown in a study held by Capital group are pushing universities to be included in the process of creation and functioning of endowment funds. These factors include the transformation of universities, the need to find new sources of funding for the university since withdrawal from the state budget source [14].

IV. CONCLUSION

Are there any perspectives for the more dynamic development of the endowment funds in Russia despite on above-mentioned problems? Firstly, there is a trend towards convergence of universities and industry, and thus, the industrial sector is beginning to play a greater role in the management of the university [15]. Secondly, the reduction of budgetary financing of universities is forcing universities to develop new sources of funding.

However, there are some barriers to the development of the endowment fund, namely:

1. High level of corruption in higher education;

2. Mainly expectation for a rapid return on investment;
3. Industrial sector distrust towards to the university as a supplier of frames (because of the low-level quality of the teaching staff);
4. Lack of specialists in fundraising;
5. Lack of feedback from alumni.

Approximately 70% of all target capital funds are customers of the three largest management companies: VTB Capital Investment Management, Gazprombank Asset Management and Alfa Capital. MC Gazprombank - Asset Management leads in the number of target capital, MC VTB Capital Investment Management - in terms of funds, Alfa Capital has the largest amount of funds from one client. Now endowments can invest in any securities circulating on the Russian stock exchange. And there are no requirements for proportions - the investment declaration is very broad. But it prohibits the purchase of foreign securities, as well as Eurobonds, i.e., target capital funds cannot receive foreign exchange earnings.

Tax breaks for companies donating to target capital are still not envisaged, although the Ministry of Economic Development continues to work in this direction [16]. Tax initiatives are now being discussed - in particular, the possibility for donors to add to the donation the amount of tax deduction that the individuals are entitled to by law.

It also proposes to expand the possibilities of investing funds of endowments - on currency-denominated paper. The Ministry of Economic Development agrees with the Central Bank of Russia and they will prepare relevant amendments to the legislation. In addition, the government is discussing the possibility of introducing tax incentives for legal entities and individuals who donate to endowment funds.

Legislation on endowments has not changed since 2012, and the situation has changed since then: for example, a new Civil Code has appeared. There are many old laws that often lead to conflicts. For example, laws on non-profit organizations or on charitable activities do not refer to endowments in general. There are many unresolved issues related to the lack of by-laws: for example, endowment funds are not currently qualified investors which limits investment opportunities.

It needs to develop a philanthropy tradition, to develop the idea of "family connection" with universities. It should contribute the creation of a lot of clusters and other forms of agglomeration in the sphere of science and education that promotes the integration the industrial sector and university, their understanding mutual motivation for cooperation. Tax preferences are also actual matter for discussion on the national and regional legislation`s levels.

Endowment fund and its development are the matter of complex approach that required institutional conversation. Promotion of funds is most sharply for the regional university that is affected by the problem of «regional inequality». It is impossible to solve stagnancy by government participation only. It requires the active participation of regional authorities, the development of financial infrastructure, as well as public organizations, which would promote the idea of philanthropy in higher

education. So, despite the specialized tone of the issue, the activity of all economic active players is required.

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