USING THE TOOLS OF CLOSED-END MUTUAL FUNDS IN ADDRESSING THE CHALLENGES OF THE INSTITUTIONAL ENVIRONMENT OF THE RUSSIAN FEDERATION


Abstract. Over the past few years, the Russian economy has undergone extensive structural changes which entailed a serious restructuring of the entire economic and financial system of the country, as well as investments being an integral part of the financial sphere. Unlike in Soviet Russia, there is no state monopoly on investment in new Russia. There is the right to carry out investment process by both state bodies and private individuals, as well as by isolated economic agents which pay increasing attention to new investment objects. In recent years, the Russian economy has noted the extensive practice of effective use of closed-end mutual funds mechanisms in the implementation of public-private partnership projects. Joint projects in the form of closed-end mutual investment funds are one of the most popular models used in the implementation of public-private partnership mechanisms in such areas as venture investment, high technologies, and projects in the small high-tech business area. The purpose of the paper is to identify and characterize the features and advantages of using closed-end mutual funds in public-private projects. It is concluded that there are a number of obstacles hindering the widespread use of the closed-end mutual investment funds in business and government partnerships.

Key words: closed-end mutual investment fund, private-state partnership, investments, national project, finances.

1. INTRODUCTION

In recent years, the Russian economy has witnessed major changes and transformations, including those related to its economic structure and management practices. The changes affected the whole economic and financial system of the country, and also touched on investments as an integral part of the financial sphere.

The theory and practice of developed countries demonstrate the increasing importance of the public-private partnership system in the socio-economic development. (Nizhgorodtsev, 2012, p. 70) This form of interaction between business and government is characteristic, first of all, for those sectors of the national economy where state responsibility is traditionally high (healthcare, communal sector, education, science, culture, sports, etc.). Being unable to completely refuse to participate in these areas, the state resorts to control functions with respect to certain property, or for certain types of activities. (Ebenezer, Afram & Botchway, 2016)

At present, public-private partnership is an important condition for the normal development and functioning of a market economy. This is confirmed by the experience of both developed and developing countries which actively use the mechanisms of private-state partnership.

Unlike in Soviet Russia, there is no state monopoly on investment in new Russia. There is the right to carry out investment process by both state bodies and private individuals, as well as by isolated economic agents which pay increasing attention to new investment objects.

Unfortunately, it is not enough to allocate resources from the funds of the appropriate budgets for the development and maintenance of normal activities of these sectors. The main task of the state is not so much to unilaterally expand direct state participation, but rather to form and develop an effective tool for interaction between business and government.

2. CLOSED-END MUTUAL FUNDS
ADVANTAGES IN THE MODEL WITH
COOPERATION BETWEEN BUSINESS
AND GOVERNMENT.

In recent years, the Russian economy has noted the extensive practice of effective application of closed-end mutual fund mechanisms in the implementation of public-private partnership projects. (Best practices for implementing public-private partnership projects in the social sphere, 2016)

This process is promoted in particular by the following advantages of the closed-end mutual investment fund model:

- Full control over a project, which is possible to realize due to simultaneous management and investment participation of co-investors;

- Monitoring of compliance with the targeted use by the management company of resources carried out by a specialized depositary. Due to this, the risk of unauthorized withdrawal of strategic assets from the fund is avoided;

- Sharing of risks between the project participants and the project itself;

- Information transparency, which in turn is an additional guarantee for observance of the existing investors' interests and contributes to attracting new ones to the project.

- Possibility of a full-fledged implementation of the trench investment system (partial payment of investment shares with subsequent payment based on the schedule or request of the manager).

A closed-end mutual investment fund is in some ways an adaptive structure, as it provides an opportunity to rebuild according to a changing market environment and to transform its investment strategy without additional financial costs, in particular tax. For example, a closed-end mutual investment fund makes it possible to act as a builder at initial stages of an investment project implementation, and after the completion of the construction (reconstruction) to transfer to the form of an annuity mutual investment fund, within which the investment object will be operated (Glenn & Patrick, 2004).

Civil legal aspects of the mechanism of closed-end mutual investment funds as instruments for investment are currently regulated by Federal Law No. 156-FZ dated November 29, 2001 “On Investment Funds”. The participation of the state and business within the framework of a closed-end mutual investment fund belongs to the share investment form.
3. PECULIARITIES OF THE CLOSED-END MUTUAL INVESTMENT FUND APPLICATION MODEL IN THE IMPLEMENTATION OF PUBLIC-PRIVATE PROJECTS.

Note that, in its essence, the closed-end mutual investment fund model used in public-private partnership projects does not differ significantly from the classical model of a closed-end mutual investment fund (Anderson & Seth, 2009).

Among the observed distinctive characteristics of this model there should be distinguished:

- The state buys back a specified share in the fund, which does not exceed 50%;

- Infrastructure organizations that serve the fund are selected on a competitive basis;

- Financing is carried out only after coordination of the relevant investments with the investment committee (expert committee), as well as when making a positive conclusion on the compliance of the project with the conditions specified in the rules of trust management of the fund, as well as with the appropriate normative documents of a state investor (Zhuk, 2011, p. 5)

Currently, there are two options for implementing public-private partnership projects using the closed-end fund mechanism. They differ in the way the state participates in them. Conditionally these methods can be designated as "direct" and "mediated" (Legal agency IMAC, 2009):

- The state takes "direct" participation in the implementation of projects related to venture financing through the intermediation of the "Russian Venture Company" (PJSC with 100% state participation);

- The "mediated" participation is caused by that under the current legislation, direct transfer of state property into a closed fund is impossible.

Figure 1 presents a model for the implementation of the private-public partnership with the participation of a closed-end mutual investment estate fund.

In this model, agreements are reached between the Management Company and investors on the use of the free cash belonging to the fund, as well as on the investment in deposits of annuity receipts on the account of payment of deferred payments.

Also, the model makes it possible to formulate the advantages and disadvantages of participation in it for each of the parties.

For investors, the following advantages of using a closed-end mutual investment fund are obvious: the aggregate profitability is increased through investment in units, annuity receipts from a closed-end mutual investment fund are placed on deposits with investor banks, the "tax haven" in terms of property taxation, the investor receives the status of a participant in a socially-oriented (innovative, etc.) project. Among the disadvantages, it should be noted the following: the project requires the provision of "long money", it is necessary to reserve resources for the devaluation of financial investments. (Sultanov, 2010)

Budgets of regions of territories also obtain certain benefits: payment starts from the moment of commissioning of the facility and the start of its operation, the annual budget load is reduced by deferred payment (annuity payment), tasks are solved within the framework of development programs. However, the discounted amount of payments is greater than the discounted amount of investments (even if the project is funded from the budget).

Advantages for the owner of the property, who receives property on the balance sheet, upon the implementation of the project through the model of a closed-end mutual investment fund can be identified as follows: the clarity and the certainty of the terms, rather than if the financing was from...
budget sources, the possible profit generated by the facility replenishes the corresponding budget.

Joint projects in the form of a closed-end mutual fund are one of the most popular models used upon implementing of public-private partnership mechanisms in such areas as venture investment, high technology, and projects in the field of small high-tech businesses. (An International Trade Union Perspective, 2010)

It is noteworthy that the model of private-state partnership involving closed-end mutual funds began to develop only with the emergence of state initiatives in this direction. (Public-Private Infrastructure Advisory Facility, 2012)

Historically, venture capital funds for small business investment in the scientific and technical sphere in regions of Russia were the first developed ones under the aegis of the Russian Ministry of Economic Development and Trade, followed by funds with the participation of the Russian venture company and the State Corporation ‘Russian Corporation of Nanotechnologies’ ("Rusnano"). (RUSNANO, 2012)

4. CONCLUSIONS

So, up to now, there are a number of obstacles for a wide application of closed-end mutual investment funds in public-private partnership in Russia when implementing large-scale investment, innovation and infrastructure projects, especially in the real economy.

Firstly, the Russian budget legislation is based on the annual budget expenditure planning period and, therefore, hardly fits into the concept of long-term cooperation in the implementation of large-scale projects, the duration of which exceeds one year.

Secondly, there is an acute shortage of experience, competencies and a base of successful practices, as well as a lack of specialists in the field of public-private partnership not only at the regional but also at the municipal level, what does not allow us to completely cover this direction for its further development. It is the lack of knowledge and competencies that has generated such problems as insufficient quality of preparation and selection of projects, lack of transparency in the decision-making process for project implementation and other problems. (A.N. Round. Features of formation of public-private partnership in Republic of Belarus, 2011, p. 32)

Thirdly, one of the main problems is the lack of understanding of the mechanisms for implementing public-private partnership agreements for both public authorities and entrepreneurs. The way out can be the formation of regional centers for public-private partnerships at the local level in preparation for the launch and management of public-private partnership projects.

5. SUMMARY

In recent years, the extensive practice of effective use of the closed-end mutual funds mechanisms in the implementation of public-private partnership projects has been noted in the Russian economy.

In the course of the market transformation of the Russian economy, the tasks on forming an efficient and functionally operative institutional system of cooperation between the authorities and business that would ensure modernization of the economy are still unresolved.

In general, closed-end mutual funds have already gained tangible experience in the Russian economy on interaction with enterprises of the real sector and financial institutions.

Joint projects in the form of closed-end mutual funds are one of the most popular models used in implementing public-private partnership mechanisms in such areas as venture investment, high technology, and projects in the field of small high-tech businesses.

We should not deny the obviousness of the prospects of this model as a solution to the problems that allow not only to improve the situation today, but also to promote the development of business and the market in the future.

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