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**ENDOWMENT IN RUSSIAN UNIVERSITIES:
PROBLEMS AND PROSPECTS**

The article explores the development of the endowment institute in Russian universities, focusing on the problems and development prospects of its functioning in Russia. An emphasis is made on terminology definition concerning the participants of this fund-in-trust. The article provides a detailed analysis of groups of partners for endowment: graduates and family, business representatives, university, also analyzing their role in endowment enhancement.

Keywords: university; endowment; fund-in-trust; sources of financing.

JEL classification: O32, O33, O34, O38, O39.

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ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ**

У статті розглянуто питання розвитку інституту ендаументу в російських університетах, приділено увагу проблемам та перспективам розвитку даного інституту фінансування у Росії. Уточнено термінологію стосовно учасників такого цільового фонду. Проаналізовано групи партнерів ендаументу: випускники, представники бізнесу, університет, а також їх ролі в активізації діяльності ендаумент-фонду.

Ключові слова: університет; ендаумент; цільовий фонд; джерела фінансування.

Табл. 1. Літ. 10.

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В статье рассмотрены вопросы развития института эндаумента в российских университетах, уделено внимание проблемам и перспективам развития данного института финансирования в России. Уточнена терминология в отношении участников такого целевого фонда. Проанализированы группы-партнеры эндаумента: выпускники, представители бизнеса, университет, а также их роль в активизации деятельности эндаумент-фонда.

Ключевые слова: университет; эндаумент; целевой фонд; источники финансирования.

Introduction. Due to current transformations of Russian universities with their shift from being traditional ("classic") to the entrepreneurial ("innovative") type the role of diversified fund in financing university activities becomes especially actual. One of the sources of such financing is endowment (or fund-in-trust in Russian legal terminology), which is relatively new for Russian universities. This paper considers the specific features of endowment development in Russia along with some barriers, including the cross-cultural aspects.

Endowment, as a rule, is intended for non-commercial use purposes in education, medicine and culture. In theory, the key source of endowment is donations. Despite the widespread practice of endowments in foreign education (and not just in higher), in Russia such funds started operating only in 2007 (when the Federal Law 275-FL "On the formation and use of fund-in-trust in non-profit organizations" and the Federal Law 276-FL "On making amendments to legislative acts of Russian

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Federation in connection with the adoption of the Federal Law "On the formation and use of fund-in-trust in non-profit organizations" were adopted). 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 donators were provided with additional benefits (Law RF, #328, 2011). Russian lawmakers's attention to endowment is linked to changes in government policy in higher education, the changing role of universities (especially their status and categories in national research) the development of regional and national innovation systems, the necessity for cutting universities budgets (and thus, university management have to draw-up diversified funds).

Literature review. Russian scientists Y. Mirkin with a group of authors K.B. Bahtaraeva, A.V. Levchenko, M.M. Kudinova, involving T.V. Zhukova (Mirkin et al., 2010) 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 the Russian papers on this topic. Separately we should mention the study (philanthropy.ru, 2013), released by the Department of Strategy and Development "Capital" in 2013 – "Creation of endowment funds in Russian universities". This paper was dedicated to determining the interest and commitment of universities in formation of endowment funds for to their future activities financing. However, despite the actual matter, the issue of Russian endowments with analysis of barriers to the improvement of the establishment and functioning of endowments, is paid little attention (Leonov, 2012). For example, there are no studies related to the practice of fast-growing endowment funds at Russian universities. It makes it difficult to forecast future development directions of this institution. In general, the analysis of Russian theoretical and practical literature has shown that the study of endowment is quite fragmentary. This could be partially explained by current Russian realities (Kotrikova and Borisova, 2012). Moreover, difference between domestic and foreign literature is that foreign experts pay more attention to the return on investment, effective management of revenues, while in domestic literature the focus is on the problem of creating funds, attracting donors and donations, and revenues maximization (Cejnek et al., 2013). Moreover, it seemed to us that endowment fund is seen more as a tool for charitable activities, or as an instrument of public policy. Little attention is paid to it as an important part of diversified funds of universities, that can play a leading role in improving the financing mechanisms of domestic universities in today's Russian higher education (Aryn and Ernadarov, 2010). Also income management in endowment funds is often overlooked. The reason for this, in our opinion, is the lack of domestic endowment operations, and the lack of Russian experts on university fundraising, and this once again shows the potential problems with long-term investment in higher education.

The purpose of the study. The aim of this study is to show how to manage endowment at a Russian university and what issues are to be addressed for the successful development of diversified funding of university.

Key research findings. Currently, there are the following financing resources available for Russian universities:

1. Fund of corporation – university partner in research.

2. Budget funding.
3. Non-budget funding.
4. University fund.
5. Endowments.

Initially, it is necessary to define the terminology used in this paper. The first question is to define the participants involved in formation and operation of endowments by their contribution – donors or donators or we must use another term. The difficulty is that in the related studies such participants are called in different ways: donors, donators, sponsors. However, sponsor is usually a participant involved in any project (including financial) on specific conditions. Thus, if we use the term "sponsors" we violate the principle of voluntary participation in an endowment. Donors and donators are the parties which participate on a "pro bono basis". However, in a situation with endowment we face the compensatory nature of participation – the parties involved in the formation of an endowment fund will benefit in any case: tax incentives, direct or indirect participation in managing the university, or the so-called "reputational benefit" that is also important. It seems useless to apply the term "investors" because endowment fund is a project with a 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. A participant doesn't get interest, because this participant has transferred funds to the endowment and they did not belong to him/her anymore. From the investment logic the participant gets nothing, moreover, he/she is in a financial loss.

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

Traditionally, the following groups are regarded as partners in an endowment:

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

We would like to emphasize the influence of society on socially oriented economic objects (university as a generator and a transmitter of knowledge belongs to such objects, being an economic agent at the same time).

Table 1 shows that the top-5 universities in the world by the largest endowment fund have very different systems of government, different geographical conditions etc.

Table 1. Largest endowments in the world (Mirkin et al., 2010)

	University	Country	The size of the endowment, bln USD
1	King Abdullah University of Science and Technology	Saudi Arabia	20 (19.02.2013)
2.	University of Cambridge	Great Britain	4.65 (15.02.2013)
3.	Kyoto University	Japan	2.20 (31.10.2008)
4.	NUS University of Singapore	Singapore	1.79 (27.09.2012)
5.	The University of Melbourne	Australia	1.17 (2010)

However, all of these universities have one common feature – public interest (which is represented by different categories of population) to the development of the university. In all these cases, we have active society that participates in the development of the university in the long-term perspective. In the case of King Abdullah University of Science and Technology (Saudi Arabia), we are dealing with a society with rigid patriarchal traditions. University of Cambridge is the university with strong centuries-old tradition of relations between graduates, their families and the university. Kyoto University and NUS are also members of traditional societies with strongly-marked "nepotism".

2. *Corporations, SME and other representatives of the industrial ("real") sector.* Although the initiative to establish endowment institute in Russia belongs to the representatives of this sector, the industry continues to demonstrate distrust to this new investment method. In particular, Russian representatives of large business are rather skeptical to endowment existence in Russian universities. The emergence of endowment practice in Russia coincided with the global financial crisis of 2008 and this impacted negatively on the integration of industrial sector into diversified funds of universities. Also, this group may not fully understand the importance of endowment funds. Currently the industrial sector provides financial assistance to universities in the form of scholarships to students, grants to scientists (BP scholarship program is for students studying for the degrees in energy economics, launched in 2011). Also, this group is very much involved in joint training centers (cooperation between Ryazan State Radio Engineering University and EPAM Systems). Due to transparency of these activities they could be controlled by business much easier than in the case of endowment. However, an endowment fund at a university leads to much greater participation of business in the formation of university policies (on scholarships, for example). Moreover, there is a problem with understanding the importance of business participation in social projects and charity (in other countries participation in an endowment fund is the equivalent to participation in charity projects taking into account the financial gratuitousness). When we are talking about financial planning, the evaluation of social projects effectiveness is usually complicated. And one can talk about results but not about effects (Kotrikova and Borisova, 2012). Another problem is the size of endowment. Financing of university is exclusively derived from the income that university gets after fund replacement (% or income from investments) so if we want well-working endowment in the long time we need to understand that the size of fund should be big enough. Moreover, there are another factors affecting the success of such a fund – regional inequality and therefore, also regional financial

infrastructure. Not all Russian regions have enough potential to provide their leading university by volunteering business with sufficient funds available.

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

Endowment is a long-term investment project. Any risky strategy is unacceptable. 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 outstripping inflation rise. In addition, the effect from participation in endowment formation will not be reached soon. It is "non-active" management for industrial (business) sector and the question of competence of a fiduciary manager is quite important. It might cause distrust in the industrial sector that is used to rely on accurate forecasts and safeguards, especially when it concerns finance. Cooperation between a fiduciary manager and a board of trustees of a university with supervisory functions is still a new model for Russia. Hence the question of integration of all endowment partners with different motivation is particularly actual.

Additionally, in Russia charity funds are rather inert as compared to the foreign ones. 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 the development of endowment institute in Russia are the mustiness of university leadership, their fear of new forms of financing, lack of education in the field of fundraising, and of understanding the need of, and hence, the fear of new organizational rearrangements within a university. In 2013 in most Russian universities there was no program to raise funds and donations, to attract philanthropists. Secondly, as in the case with the industrial sector, there is certain distrust to the model of "non-active" management of endowment fund (fiduciary manager). Thirdly, it is legally prohibited to use own funds for endowment formation (in contrast to the USA, where it is allowed). Hence, in Russia the creation of "true" endowment funds is allowed only, while in the world there are at least 3 types of such funds:

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

There is some optimism about external factors such as shown in the study held by Capital group. The environment is pushing universities to be included in the process of creation and functioning of endowment funds. These factors include: transformation of universities, the need to find new sources of funding for universities due to problem with public budget sources.

Conclusions. Are there any perspectives for more dynamic development of endowment funds in Russia despite all the abovementioned problems? Certainly. Firstly, there is a trend towards convergence of universities and industry, and thus, the

industrial sector is beginning to play a greater role in university management. Secondly, the reduction of universities financing from public budget is forcing universities to develop new sources of funding.

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

1. High level of corruption in higher education.
2. Expectations for quick return on investments.
3. Industrial sector distrusts universities as a supplier (mostly because of the low quality of teaching).
4. Lack of specialists in fundraising.
5. Lack of feedback from alumni.

At present, there is a critical need to develop a philanthropy tradition, to promote the idea of "family connection" with universities. Further this would contribute to the creation of clusters and other agglomeration forms in the field of science and education, thus promoting the integration of industrial sector and university, their standing and mutual motivation for cooperation. Tax preferences are also important in this discussion at the national and regional legislation levels.

Promotion of endowment is most sharply important for regional universities affected by «regional inequality». It is impossible to solve the stagnancy issue by state participation only. It requires active participation of regional authorities, financial infrastructure development, as well as promotion the idea of philanthropy in higher education and not only. Active involvement of all economic agents is required.

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