

The Private Capital and Investment Financing

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Abstract: The article deals with different forms of business activity based on private funds, which is included in the category of funds, resources, financial resources. The private capital is defined as the complex of own and attracted financial resources, based on the funds and private property of individuals, their groups, their organizations, not depending on the ownership of capital. The capital includes its own and attracted financial resources. The intellectual capital, as a complex of own and attracted intellectual resources, having the financial appraisal, is an essential part of capital. It is defined that the financial organizations and companies can offer the private and the state capital to finance the investments. The advantage of the private capital is its flow depending on the desire of entrepreneur and its ability to provide any financial and economic needs of business, including its investment cover. Depending on the role of the private capital in the investment the different quality is formed, that's why the investment management from the point of view of the ownership of the capital presupposes the increasing of the part of private capital.

Key words: Investments • Innovative activity • Private funds • State capital • Effectiveness • Intellectual private capital

INTRODUCTION

Today the country has the only way of the development - the forming-up of the hi-tech innovative economy instead of the one-sided oriented rude national economy, determining not the first positions of Russia in the international differentiation of labor.

It's necessary to underline that for executing the innovative tug during the last decade the very serious base was elaborated, for industrial, social and institutional infrastructure, for the strengthening of the bank sector, for the creation of necessary material and financial reserves, for the formation of the market-oriented legislation, for the stabilization of the social and political life. Consequently that in such conditions despite of the unfavorable external background such as global economic crisis, the positive trends of national economics dominated, creating the preconditions of the economic advance.

It's important that the main participants of the economic processes started the serious realization of the

innovative and investment projects, oriented not only on mining operations, but also on the manufacturing - first of all - machinery-producing industry. In contemporary conditions in the national economy the augmentation of big corporate structures in different spheres of economy, also as in relatively recently appeared innovative companies, consistently developing in hi-tech directions is evident.

So to say, from one side the economic entities realize the necessity of the development of the innovative activity, from another side all the necessary macro-economic preconditions are created. Last years the financial banking sector accumulated the citizens' savings, which can be considered as investment resources. At the time we should underline that the innovative activity of many rather big economic structures doesn't correspond to the contemporary goals. It is seen in the absence of strategies, non-sufficient quantity of the realized innovative products, non-capturing in a full volume of the presupposed investments in the innovations etc.

Partly it's connected with the domination in the capital of these structures of the state capital, which does not allow disclosing to the full the potential of economic entities. We suppose that the problems of the acceleration of the innovative development of the national economy must be decided, including the way of increasing the role of private capital in the investment providing of innovations.

It is important to mention that the problems of the investments based on the differently structured capital were tightly examined in works of foreign researches J. Dean, H. Markowitz, M. Miller, F. Modigliani, S. Ross, Y. Schumpeter, G. Terborgh, J. Tobin etc. [1-9]. They comprehended the principal ideas of the investment science, many of those ideas became axioms. With the beginning of economic reformations Russian scientists adapted the indicated ideas to the conditions of national economics. We can enumerate such scientists as: V.V. Bocharov, S.M. Bukhonova [10], N.D. Guskova, Y. A. Doroshenko [11, 12], D.A. Endovitskiy, A.G. Ivasenko, A.A. Rudichev, G.P. Podshivalenko [13], P.P. Tabourchak etc.

But, in spite of the great number of manuals, monographs, articles and internet materials on the actual problems of innovative-investment development, not all their aspects are fully disclosed yet. It concerns firstly the investment of innovative activity based on the private capital, who's content is not examined fully in the economic literature; as a result the companies take not always justified decisions on the investment by using different sources.

It occurs also because of not sufficiently worked out on the science methodical level questions of the investment of the innovative activity of the company, based on the private capital. The pointed out conditions explain the actuality and importance of the topic of this research.

The Essential Part

Essential Aspects of the Private Capital: The development of the market reforms in Russia in 21st century proved the advantages of the private capital in the increasing of investments of the economic entities. According to the 2008 – 2010 annual results many researchers came to the conclusion that the level of the activity in the innovative –investment sphere of the largest state companies doesn't correspond to the goals of the technological development and the part of the private companies, implementing new products 4 times

exceeded the companies with the state participation and fully state companies. But in the science researches this statement wasn't fully disclosed. That's why it is necessary to show the role of the private capital in the investments.

In general the investment problem was widely described in a modern Russian literature. In the manuals, monographs, current periodicals there are different definitions of investments and their classifications. So in [13, page 19] the investments are considered as proprietary and intellectual values, which are invested into the objects of enterprising to get a benefit or another effect. It's known that from the point of view of modern investment and financial management the property and intellectual values are the main tools and non-material assets, consequently the given definition of investments supposed the investment of given non-current assets into business with a known goal.

We have to underline that the positive moment of this definition is the mention of the intellectual capital, without it's division into the capital – assets and capital – resources.

In [13] there is a characteristics of investments, which consider them as the totality of expenses, realized in the form of task-oriented investment of the capital on the definite period into different domains and spheres of the economy and into objects of business and other activity for getting a benefit and getting as private goals of investors and also of a positive social effect.

The disadvantage of the given characteristics - there is no indication what kind of expenses (investments or current) are discussed, the period is not defined, there is no determination what kind of activity apart from business activity can generate the benefit. One more definition of the investment by Chueva L.N., have something in common with the considered definitions. Here investments are funds, earmarked cash, technologies, shares, licensees, any other property, invested into the objects of business activity to get a profit and a positive social effect [14, page 88].

As in some previous definitions here we see the baseless combination of the objects of investments and the resources of their financing.

The considered definitions of investments are typical for Russian economics literature, they are united by the common description of investments as different investors' assets, as non-current assets and as current assets, directed on the business activity of economic entities to get the positive economic effect.

Despite on that all these definitions in general describe the elements of the investment process, the essential and substantial characteristics of the investment are not fully disclosed there. In our opinion, the starting point of the research of the investment as an economic category is a conception of U. Sharp (the laureate of the Nobel Prize) who says that - to invest means to separate with money today, to get more money in future and consequently, the investment is a refusal from the definite value at the present moment for the would-be value in future [15].

From this conception we see that the investment is a process when on the first stage the different categorized savings of the participants are created and on the last stage the value of non-discounted, but entitled to discount benefit, profit positive financial effect.

From the W. Sharp conception's view the limitation of such definitions of the investment process, as an opened system where participate both the investor (customer) and other partners (developers, contractors, banks etc.) [15] and others. At the same time investment as a process discloses its main stages, elements and outlines are presented at the Pic. 1.

Considering that according to the last trend of western researches of the investments management the savings unit are firms, households, financial organizations and state. The concretization of these stages of investment as a process have a next look:

The refusal to consume by all the saving units leads the placement of unspent profits by households, financial organizations, state into the financial investment (securities, credits, deposits) and by firms - into financial investments or into real investments.

The specifics of the placement of savings of different categories of investors are shown on the Pic. 2.

As we see the difference between the investment activity oh households, financial organizations and state from one side and firms from another includes that fact first ones can invest savings only in financial investments, which are linchpins on the passage to the real investments; second ones on their own discretion can invest as in financial as in real investments, what enlarges the range of the opportunities of the investment.

At their turn the real investments of the firms in a full volume can't be provided without the financial investments of households, financial organizations and state, which are put at the disposal of the firms by the borrowing limited by the financial intermediaries. This conclusion is very important in a classification of investments and here the researches formulated a great number of classifying attributes.

From the point of view of the property on the capital, the households are the real suppliers of the private capital, consequently the state –of the state capital. The financial organizations can offer both state and private capital to finance the investments, according to the structure of their own and attracted financial resources. The same can be said about firms.

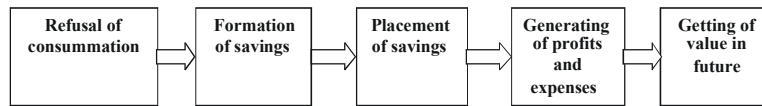
According to the conception, offered in this work, the financial investment by households potentially generates the highest level of the investment activity and opposite – from the state – the lowest level. Also it we underline that the character of the property on the capital of financial organizations and firms depends on the structure of their own and attracted financial resources.

As it was mentioned in the previous paragraph, the great number of the situational classes appears. These situations depend on the decisions on the financial investment, taken by the owners of the organizations. So the private enterprise can rely on credits and trusts, got from the private banks and financial organizations and on the given resources of financing, provided by state banks and financial organizations in the financing of their investment activity. Using the first way of financing provides better quality of financing.

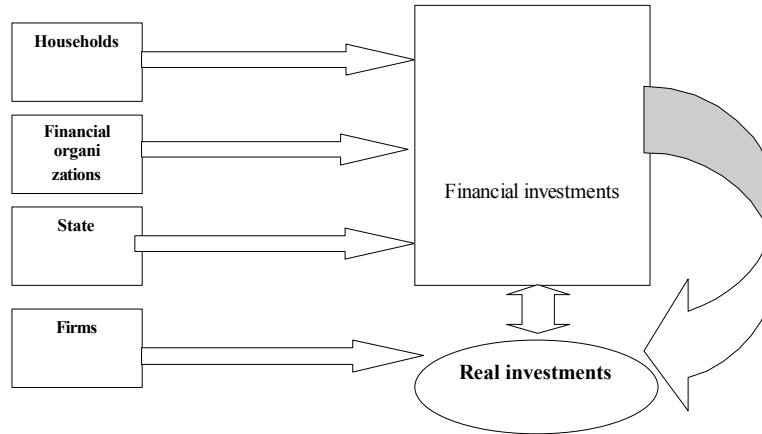
It is important to underline that in the providing of the investment process the advantages of the private capital comparing to the state capital are evident. On the Pic. 3 the stages of the private capital movement are shown linked with the stages of the investment process.

As we see, after creation of conditions for accumulating of the private capital it appears, finds its place, generates some profits and expenses and provides the value getting in future. In this plan we'll notice that in our country from the beginning of 2000s the favorable conditions for accumulating of private capital were created. It is seen in the augmentation of real profits and savings, what in its turn remains a serious precondition for the development of the private entrepreneurship. The advantage of the private capital is its free movement depending on the desire of the entrepreneur and it provides any financial economic needs of the business, including its financial investment.

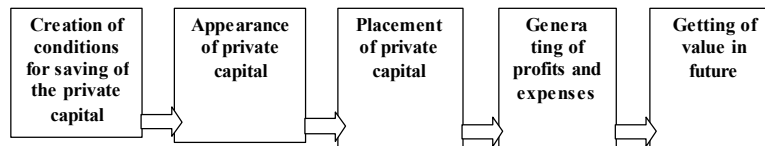
On the opposite side, the state capital is less mobile and cannot be quickly and effectively distributed for financing o f investments, what is natural for it. On the Pic. 4 the stages of the formation of state capital are presented at the background of the movement of the private capital in the interaction with the stages of the investment process.



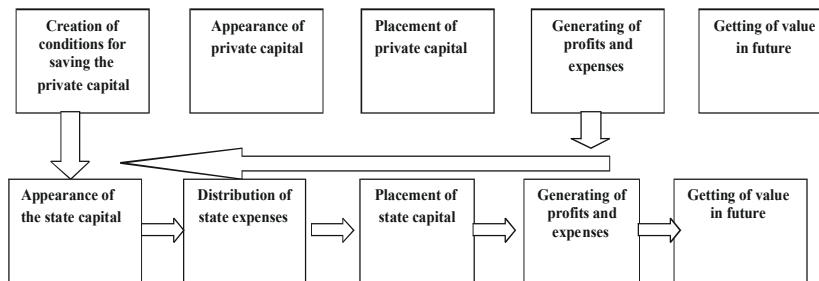
Pic. 1: The main stages of the investment as a process



Pic. 2: The specifics of the placement of savings of different categories of investors



Pic. 3: The stages of the movement of the private capital linked with the stages of the investment process



Pic. 4: The stages of the formation of state capital are presented at the background of the movement of the private capital in the interaction with the stages of the investment process

Different from the private capital, directed on the providing of the investment activity of the organization, the appearance of the state profit by the paid taxes from private capital and the distribution of the state expenses takes priority on the placement of the state capital in the investment.

Besides that on the stage of generating by the private capital of profits and expenses the part of the benefit from the private investments also used as supplement taxes into the state profits, which in some period of time are directed into the state investments in different forms. Consequently the process of the realization of investments on the base of the state capital is longer, more complex in technical – technological plan, it is more

risky. First of all we consider legal risks, political and risks of excessive use. Considering all the rest equal conditions it is less effective being appraised by known criteria. It is well-formed that the quality of the investment activity based on private capital will be objectively higher.

Passing to the investments we'll notify that there is a wide spread distinction of investments on:

- Real and financed;
- Gross investments (the whole volume of the investments);
- Net investments (the amortization is excluded);
- Direct and non-direct investments;
- Short-range investments (to one year);

- Long-range investments (more than 1 year);
- Domestic investments (the investor – enterprise itself);
- Outward investments (investments of another organizations);
- By form of propriety (private, state, joint and foreign investments);
- By regional characteristic (domestic and offshore investments);
- By the level of jointness;
- By risks etc.

A lot of indicated characteristics are actual, for example real and financed investments are distinguished by W. Sharp, net and gross, direct and non-direct, risky and not risky, joint and separate investments are actively considered in the investment science. The objection may be provoked by including of short-range investments, because it is a fact that the key-characteristic is a period more than one year.

For our research the most interesting is the form of property as classifying criteria. It is interesting that by this classification we consider private investments as investments into objects of the entrepreneurship by the legal bodies of non-state property and citizens; as state investments we consider the investment of the capital by state unitary enterprises and of the funds of federal and regional budget. But itemizing of this criteria doesn't disclose the question what is a property on capital. So, the investment into objects of entrepreneurship by legal bodies of non-state property and citizens can base on the state capital (special-purpose funding of the project. At the same time for the state unitary enterprises is possible to invest to the private enterprise active assets.

To understand the essence of the private capital we made a research which results are presented in a previous paragraph. It is necessary to remind that the formation of the nominal capital by for example joint-stock company can be provided by state resources, that's why these companies are not equal to the private capital and only in case of payment of the nominal capital by the individuals, their group or by their company we can speak about the private capital and about the entrepreneurship in its true meaning. The same concerns the attracted resources. The role of the private capital in the financial investment is determined by its part in the sources of financing. The value of the private capital is higher if its part is higher in the investment.

The Classifying Characteristics of the Private Capital:

It is interesting that in some researches the authors try to solve the problem of the role of private capital in the financial investments by using supplementary classifying criteria. For example with a criteria "the form of property" which allows to include into the private investments the investments made by citizens, enterprises, organizations of the non state form of property, the criteria "source of finance" also is offered. Here they distinguish state sources (investments by the central and local authorities using the funds of budget and non-budgetary funds), own funds of enterprises, (profit, amortization deductions), borrowed resources (loans for a definite period). As we mentioned before, the criteria "form of property" does not give the idea that the capital is private or state and the criteria "financing sources" still doesn't disclose what kind of capital (state or private) provides the investments.

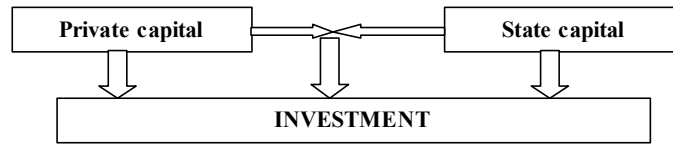
If the investments made by central or local authorities using the budgetary and non budgetary funds is really a state capital, so the profit, amortization deductions etc. of the enterprise don't have a single characteristic of the private capital. As it was said before the joint-stock enterprise can be in a state property.

The same can be said about borrowed sources, trusts to the enterprise can be provided by the state or partly state bank. Conversely, the trust company functioning on the base of the private capital can provide the investment trusts to the state enterprise. That's why we can state that the idea of some researches that the investment by the state enterprises using borrowed funds [13, p. 15] - are state investments can't be proved.

So, in existing classifications the classifying characteristic, representing the role of the private capital in the finance investment is obviously missed. We propose to use in scientific terms the criteria, called "property on the capital". The investment characteristics of this attribute are following:

- Investments based on the private capital;
- Investments based on the state capital;
- Investments based on combined (state & private) capital (Pic. 5).

Depending on the role of the private capital in the finance investment the different quality is formed. Then we can propose the ranging of the part of the private capital in concrete investments, the integrated rank of the quality, which concretizes the economic security of the investment activity of the enterprise by the private capital.



Pic. 5: Possible criteria of the investment from the position of the property on the capital

In household activity the finance investments is usually based on the combined capital (private + state) and it is a result of the interaction of these kinds of property on the capital. As It was mentioned, the big share of the private capital in the investments improves their quality the management of the investments from the point of view the property on the capital supposes the augmentation of the role of the private capital.

To provide such conditions it is necessary to realize following directions:

- Privatization of the state enterprises;
- The basement of the state participation in corporate structures;
- Formation by state and private enterprises of the structure of borrowed funds with a dominating role of the private capital.

The realization of the first two directions allows to increase the part of the finance investment based on the private capital in a domain of own funds of enterprises. The realization of the third direction is in the domain of borrowed funds.

Each of directions demands the itemized development of the complex of measures and technologies from the side of some unit. For example, the privatization of the state enterprises - is a function of the state administration which is held by the assumption and realization of the privatization program.

The basement of the state participation in corporate structures is achieved by the public sale of the shares of corporate structures by state bodies. The formation of the structure of borrowed funds with a domination of the private capital is possible by getting trusts from private banks or by the emission of illegible bills or loan stocks, placed among the owners of private capital – firms, households, financial organizations.

Considering the realization of the 1st direction of the augmentation of the part of the private capital in the investments, in the privatization of state enterprises and summing up the experience of the privatization in the country during 1992-1993 it is necessary to underline the following. As it follows from the fundamental expressions of the greatest theorists of the investment

science, the investment can't be realized without savings and it is true. Considering some objective reasons in Russia the savings of households were absent at the beginning of the 90s.

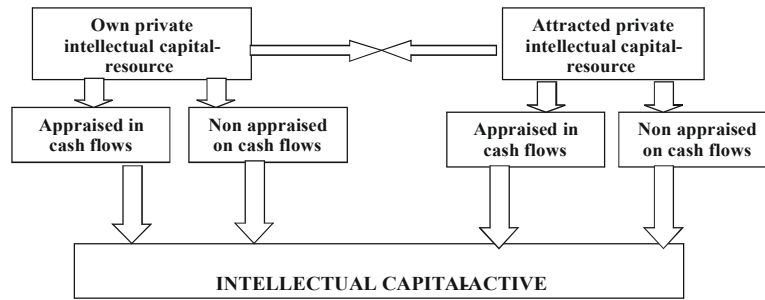
By the way the original mechanism of privatization was offered – it was the investment of the households without savings, by distributing to people the privatization vouchers. We can differently apprise the results of that privatization, but the fact remains, the investments were realized without savings or, speaking in other words the savings in the form of valued papers were created artificially. These papers were gratuitously handed to the households, what provoked the appearance of the private capital.

So, in this case not the private capital initiated the investments, but the investment process restored the private capital, what illustrates the unknown by that time technology of investments in Russia. It is evidently that in nowadays conditions at the beginning of the 21st century there is no reason to realize the second privatization, thanks to the sane economic policy. It's enough of saving in national economic policy and consequently and of sources of finance investments. But the means of investment used in 1992 – 1993 years present a vivid interest for researches and need a further detailed analyzing.

The examination of the investment problems includes the separate studying of the role of the intellectual private capital in this process. The creation and development of the private business usually concerns the use of intellectual capital, owned by the entrepreneurs or bought from other owners.

In the first case we speak about the intellectual and business qualities of the founders of business, their qualification and ability to labor, inseparable from founders. As it was mentioned they are implemented as private “invisible” on the balance of the enterprise – capital-resource and they are presented as “invisible” non material capital assets as an active capital.

For example, owning the original logistic scheme of the goods movement and distribution the participant of the process receives visible advantages in front of the concurrent, although in the economic domain it is considered to be an effectiveness, for example of the



Pic. 6: The formation of the private intellectual capital - active and capital-resource in the investment process

capital turnover management. In fact to execute an effective investment management they need a real expert appraisal of the indicated private capital-active and capital – resource in the interests of finding the real image of investment and current financial and economic activity of the enterprise. The second part of the own private intellectual capital is reflected on the balance of the enterprise as an exceptional copyright holder on the invention, industrial pattern, useful model etc. It has a cost appraisal and officially according to the legislative base can be acknowledged as an object of the financial investment. The similar situation happens if they buy the private intellectual capital from other holders, a part of it remains “invisible”, a part is transparent and it is appraised by concrete points of the financial documents.

The formation of the private intellectual capital - active and capital-resource in the investment process is shown at the Pic. 6.

As it seen, the financial investments into the intellectual capital - active needs as direct investments in cash flows in a part of own and attracted intellectual resources, also in financial appraisal of the other part of own and attracted intellectual resources, which are not appraised in cash flows, formed on the base of the intellect, knowledge and skills. Consequently, the financing of investments into the intellectual capital - active is an important part of the financial investments by the private capital.

At the same time in the structure of the intellectual private capital the difference between two parts will be protected. The first part includes official right of copyright holders on the inventions, industrial patterns, useful models etc., bought by the enterprise and inseparable from it. The second part includes intellectual resources, including intellect, knowledge, skills of business holders and employees, which cease to exist as an intellectual private capital at the moment of the sale of business of the dismissal of employees.

It is necessary to stress that the definition of the character of the property on the capital requires the consideration of reality of the market economy. If official rights of the copyright holders are simply described and follow from the definition of the capital private or state one, spend on their attainment, the intellect, knowledge and skills can’t be identified categorically. It is known that the intellect is given by birth, but skills and knowledge are attained during the education process and primary professional development in organization.

Depending on the source of financing process of the attainment of knowledge and skills the characteristics of the intellectual capital are specified. So, if a person develops his intellect in middle and high schools paid by state, his private intellectual capital gets the elements of state intellectual capital in the volume of this financing.

Opposite, in case of the private financing of the educational process the intellectual capital remains fully private, but in this way there are two variants: the financing of the formation of knowledge and skills by own savings, or by borrowed private capital (trusts of private banks). In the second case the owner of the intellectual private capital has the obligations in front of the supplier of borrowed private financial resources, which must be executed in the defined period.

Speaking about the official copyright holders the next situation is possible: when the intellectual capital is fully state. But concerning the intellect, skills and knowledge it is impossible, because the intellect of its owner can’t be bought by money.

Summing up what has been said, the initiation and realization of investment processes, the increase of the investment quality in modern economic conditions needs the enforcement of the role of the private capital, its participation in the investment activity of enterprises.

Conclusion. It is important to stress the advantage of the private capital is its free movement depending on the

desire of the entrepreneur and it provides any financial economic needs of the business, including its financial investment.

On the opposite side, the state capital is less mobile and cannot be quickly and effectively distributed for financing of investments, what is natural for it. The process of the realization of investments on the base of the state capital is longer, more complex in technical – technological plan, it is more risky. First of all we consider legal risks, political and risks of excessive use. Considering all the rest equal conditions it is less effective being appraised by known criteria. It is well-formed that the quality of the investment activity based on private capital will be objectively higher.

Speaking about the classification of the investments, we'll notify that the classifying attribute, reflecting the role of the private capital in the finance investment is really missing. We offer to use as a scientific term the attribute which can be called “the propriety on the capital”.

Depending on the participation of the private capital in the financing of investments the different quality is formed. The quality will be higher if the part of the private investment is bigger in the structure of the financing resources. Further the ranging of the degree of participation of the private capital in concrete investments may be offered.

The management of the investments from the point of view of the property on the capital supposes the augmentation of the part of private capital. For this activity next directions are realized: the privatization of the state enterprises, the decrease of the state participation in corporate structures, formation of the structure of borrowed assets with a domination of the private capital. At the same time the investment providing by the intellectual capital is an important part of the investment of private capital.

Issues: The studying of the process of the innovative investments based on the private capital allowed us to come to the next conclusions:

- The historically different forms of the entrepreneurship appeared and developed on the base of the private capital. The category of private capital corresponds to funds, resources, financing resources terms, independent from the owner of the capital.

- The private capital - is a complex of own and attracted finance resources, based on cash resources and based on the funds and private property of individuals, their groups, their organizations, not depending on the ownership of capital, it includes own and attracted finance resources.
- The propriety on the capital creates different classes of situations when the private capital provides the dominating part of all finance resources, when the highest level of the investment of the innovative activity on the enterprise is generated.
- The integral part of the capital is an intellectual capital, presenting the totality of the own and attracted intellectual resources, having the finance appraisal.

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