

Project financing: nature, problems and directions of development

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Abstract — The article is devoted to an actual scientific and practical problem of research and the search for additional forms of financing investment activities, determining the essence of project financing, identifying problems hindering the effective development of this form of financing investment projects and presenting directions for its further development. The analysis of the theoretical approaches of domestic researchers to this problem allows the author to determine the essence of project financing, systematize the main scientific approaches to the concept of project financing. The conceptual framework of the sphere of project financing was expanded, in particular, the author supplemented the existing concept of project financing, and also classified the main forms of this type of investment and sources of financing. The existing model of project financing was assessed, its main shortcomings were identified at the legislative level, problems were highlighted due to the lack of guidelines for evaluating investment projects and mechanisms for selecting investment sources, and measures were identified that contribute to the further favorable development of project financing in Russia when finalizing legislation and improving prudential funding regulation. The results will be in demand when making management decisions for the implementation of large-scale investment projects in Russia, the successful implementation of which directly affects the growth and stabilization of the economy of the region and the country as a whole.

Keywords — project financing, project, investment.

I. INTRODUCTION

The key problems of the Russian economy at present are the improvement of the innovation potential, aimed at ensuring continuous renewal of production capacities and increasing investment activity that requires the creation of an efficient investment market.

Particularly acute is the issue in the implementation of projects that have a significant value for the development of the country's economy as a whole, but at the same time require investments worth billions of dollars and pay off over many years. Such projects, as a rule, include such as the construction of pipelines, roads and railways, electricity and communication networks, and the search and development of new mineral deposits.

In world practice, project financing has been a form of implementation of such projects for several decades. Russian enterprises, organizations and institutions are often limited in the full use of such a substantial form of financing as project financing, which limits the attraction of investments to the

regions. Restrictions on the use of this mechanism for financing investment projects are primarily associated with the difficulty of attracting foreign capital. The volume of foreign investments in the Russian economy has been at a very low level for several years. Of course, the key factors that influence the decision to invest in the economy of the Russian Federation, is the image of the state, because It can predict the safety of investments. The development of the economy of the Russian Federation is carried out under pressure from the West using sanctions instruments of influence and retaliatory sanctions from the Russian Federation. All this reduces access for domestic companies to Western financial markets, limits the export of many technologies to Russia, etc. In such a situation, the Russian economy can only rely on itself.

Thus, the relevance of the research topic is connected with the need to identify issues that impede the effective development of project financing in Russia and the development of measures that contribute to the further favorable development of this form of investment.

The author determined the goal of the study to develop a concept for the development of project finance in Russia.

The purpose and logic of this study predetermined the formulation of the following tasks:

1. explore the essential value of project financing, with the aim of developing theoretical content in terms of the author's position to determine this form of financing;
2. to evaluate the existing model of development of project financing, to identify its shortcomings and to formulate measures for its improvement on the basis of the development concept proposed by the author.

II. REVIEW OF LITERATURE

The theoretical and historical foundations of project financing have been extensively studied in the works of such researchers as Barinova A.E., S.Gatti, Yeskomb E., Krutova I.N., Nevitt P., Esti G.B. and other domestic and foreign scientists [1-5]. Certain aspects of the formation of project financing mechanisms are reflected in the works of P. Nevitt, M.P. Loginov [6,7].

Problems of the formation and development of project financing in Russia are devoted to the works of Russian researchers I.A. Nikonova, M.A. Fedotova [8,9].

These scientists were at the origins of the emergence of project finance in Russia and made a significant contribution to

its development. However, it should be noted that the forms and instruments of project financing that are currently used in Russian practice did not allow this form of financing to be available for most investment projects that are so necessary for the development of the regional economy and the country as a whole.

III. RESEARCH METHODOLOGY

The methodological basis of this study consists of such research methods as comparative analysis, synthesis, forecasting of economic and financial indicators of investment processes related to project financing. Including:

- The study and analysis of scientific literature on the definition of the essence of project financing;
- Analysis of the historical course of development of project financing in Russia.

IV. Practical relevance, suggestions and results of implementations, the results of experimental studies.

Based on the analysis of the theoretical and historical foundations of project financing, as set forth in the works of domestic and foreign scientists, the author defines project financing as a form of financing investment projects implemented using the principles of project management, in which the source of repayment of borrowed funds and interest for their use are exclusively cash flows generated as a result of the project itself, with an optimal distribution of risks to all project participants under the control of a specially created project company whose assets are the only security of payment obligations [10].

Distinctive features of project financing in front of other forms of investment, according to the author, are:

1. for the implementation of project financing, a project company is specially organized, which assumes the entire implementation of the project;
2. project financing is carried out exclusively using assets, future cash flows and credit risks of the project itself, and not the companies owning the project assets;
3. from a legal point of view, investment in a project does not lead to an increase in the debt burden directly on the company.
4. Attraction of an extended circle of participants in the implementation of an investment project: initiator; various levels of government; contractors; creditors; suppliers; insurance companies, financial advisors and others allows to combine a number of credit and financial operations within the project;
5. the process of returning the invested funds takes place at the operational stage of the project through the cash flow generated by the project itself, while the borrower's assets necessary to ensure the return of borrowed funds are practically absent; in the course of disbursement of funds during the implementation of the project, the assets received can be made out as collateral;
6. availability of a detailed business plan, which includes a package of examinations made by companies whose conclusions are recognized as investors;
7. effective risk management, which, in addition to the usual methods of risk reduction, includes the method of risk distribution among investment participants and the distribution

of responsibilities for project implementation among professional executors [11].

According to the world Agency Thomsom Reuters, the global volume of transactions using the project financing mechanism over the past 10 years amounted to more than 3.3 trillion. dollars in a total amount of about 8.5 thousand. The share of projects implemented on the territory of the Russian Federation is only 1% of the total, which corresponds to 2.7% of their value.

Analyzing the dynamics of the volume of project financing in the world over the past 10 years, there is a tendency of the market of project financing to respond to changes in the macroeconomic situation: so, after the crisis of 2008, the total value of transactions and their number decreased by a third. Similar dynamics is inherent in the Russian market, but along with global factors, it is also affected by local ones: the crisis of 2014–2015 and last year's period of "calm" before the elections, when the launch of many projects was suspended. It should also be borne in mind that our country's project financing is a relatively new form of using formed sources, not more than twenty years, in comparison with foreign countries, where this tool has been used for a very long time. However, the author has revealed at least two main problems that are slowing down and do not allow using the potential of project financing in our country to the fullest extent when implementing project financing.

First of all, it is necessary to note the fact that almost until 2014, the concept of project financing was fragmented, due to the lack of legislative regulation and although since 2014 some generalization and systematization of the components of project financing has been made, there is still no clear concept and parameters defining this tool.

Namely, in the inadequacy of reforming the legislation, the author highlights the first problem that hinders the development of the system of project financing both at the federal and regional levels. The absence of clearly defined mechanisms and principles of project financing provokes illiterately set goals, which leads to the creation of inadequate projects.

According to the analysis of the regulatory framework, it should be noted that, until 2014, project financing in Russia can be characterized as fragmentary, since the necessary legislative framework was practically absent.

The basis of the legislative base of the investigated form of financing until 2014, simultaneously with the Civil Code of the Russian Federation, the federal laws "On Pledge", "On Joint-Stock Companies", "On Mortgage", "On Bankruptcy", "On Limited Liability Companies", they also drafted federal laws "On investment activity in the Russian Federation in the form of capital investments", "On concession agreements", "On special economic zones in the Russian Federation", and regional laws on PPP. But these regulatory documents did not identify such important aspects of project financing as:

- separation of project property from the project company;
- collective realization of the rights of creditors;
- provision of project property as security to creditors;
- protection and control of the cash flow of the project;
- provision of project property as security to creditors;

- use of future income, future cash flows and assets to repay obligations to creditors at the construction stage.

With the introduction in 2014 on the initiative of President Putin V.V. a number of legislative initiatives in the field of project financing have undergone significant changes. The main changes in the regulatory framework of project financing from 2014 to 2018:

- Federal Law No. 379 dated December 21, 2013 “On Amendments to Certain Legislative Acts of the Russian Federation”:

1. The improvement of the pledge legislation has been carried out, in particular, the conceptual device on pledge, the content of the pledge notice, the procedure for registration of pledge notifications, the specifics of registration of notifications, the subject of pledge on bonds with pledged security, the procedure for maintaining the register of owners of securities has been clarified. The specialized project company has the right to pledge property rights and obligations in the future as a result of the implementation of the investment project, as well as rights to future project revenue and assets created. However, the essential feature of the pledge of future rights is the fact that at the time of concluding an agreement on the pledge of the project company, the exact conditions of future contracts, specific persons with whom such contracts will be concluded, as well as the dates of their conclusion, may not be known.

2. The right to create special types of accounts (nominal and escrow) has been introduced, which is aimed at minimizing the risks in the implementation of transactions when issuing project bonds. The possibility of subordination has been established, which will increase the flexibility of risk management and increase the attractiveness for investor participation.

3. The right to create specialized societies (a special project company) has been introduced, which can be created only through establishment.

- Federal Law No. 367 dated December 21, 2013 “On Amendments to Part One of the Civil Code of the Russian Federation and Declaring Certain Legal Acts (Provisions of Legislative Acts) of the Russian Federation”:

all changes concerned only the subject matter - the pledge, which allowed the legal mechanism of providing the object as a pledge even before the start of the project itself, which is important for using the project financing mechanism.

- Decree of the Government of the Russian Federation No. 1044 of October 11, 2014 (as amended on February 1, 2017) “On Approval of the Program for Support of Investment Projects Implemented in the Territory of the Russian Federation on the Basis of Project Financing”:

1. A program has been approved, the purpose of which is to create a mechanism to support investment projects implemented in the Russian Federation.

2. Project financing is defined as an alternative type of bank lending, which provides for exceptions to the general market conditions for its provision.

According to the results of the analysis, we note that with the adoption of the documents under consideration aimed at

the revision of the Russian legislation in terms of regulating project financing, it was possible to formulate civil legislation in the field of regulating project financing. Changed securitization of financial assets: defined the legal status of the issuer and presented a mechanism to reduce the risk of bankruptcy, expanded the concept of asset pledge (including property pledging for bonds), clarified the specifics of pledging monetary claims, the instrument of subordinating debt, and proposed a program to support investment projects in the Russian Federation [12].

However, there is no stable practical application of project financing mechanisms in the implementation of investment projects in accordance with the changes made in the legal field of Russia.

The author proposes to implement the following measures to improve the legislative system in the area of project financing: to formulate and unequivocally define the term of project financing, to create regulatory legal acts establishing recommendations for the evaluation and analysis of projects. Develop additional opportunities to provide bankruptcy, as in the Civil Code and the Federal Law "On Insolvency (Bankruptcy)" there is no clear position in the priority of creditors' claims. To regulate the issues of syndicated lending, in particular the issues of standardization of the syndicated loan agreement, which would significantly reduce the risks of investors and lenders.

The second problem hampering the development of a regional project financing system is the lack of a unified official methodological framework for evaluating project effectiveness, poor quality of project analysis, monitoring and control of project results.

The main regulatory documents for evaluating investment projects in the Russian Federation are the Methodological Recommendations for evaluating the effectiveness of investment projects dated June 21, 1999 and the Methodology for calculating indicators and applying the criteria for the effectiveness of regional investment projects dated October 30, 2009. An updated version of the Methodological Recommendations for evaluating the effectiveness of investment projects was introduced from April 09, 2018, its updating has allowed:

- approve recommendations on the calculation of social efficiency; clarify the methods of accounting for inflation and various aspects of the time factor;

- consolidate the recommendations of the two-stage calculation procedure, according to which, at the first stage of project development, its effectiveness is assessed as a whole, and at the second, its effectiveness is assessed for each of its participants individually and higher-level structures;

- get clarification of features in assessing the effectiveness of investment projects implemented in existing enterprises (using leases, production sharing agreements).

The author suggests the following measures to improve the quality of the project analysis of investment projects:

- to complement the existing recommendations for evaluating an additional comprehensive universal methodology for evaluating the effectiveness of project financing of investment projects, which consists in the presence of five system indicators of a comprehensive analysis of investment

projects: commercial, market, scientific, technical and social efficiency, as well as management effectiveness. So, at the stage of evaluating commercial efficiency, financial indicators are assessed, on the basis of which the payback of the project is determined, the opportunity to generate cash flows by the project and after what time to evaluate the solvency of the project in order to service the debt on borrowed funds. Also, the evaluation procedure is exposed to the financial risks of the project and the assessment of the financial efficiency of the project, taking into account their impact. Monitoring the indicators of the investment project and the timely identification of their deviations from the specified values will allow for timely corrective actions that will allow the project to be implemented with minimal losses.

Market efficiency indicators correlate the costs and results associated with the implementation of the project, allowing for a cost change.

At the stage of evaluating the effectiveness of management, the composition of the team is determined; the list of knowledge and skills necessary for the team, depending on the specifics of the project, will help in its implementation; Features of the personal style of interaction of its leader or leader with other team members.

Indicators of scientific and technical efficiency determine the commercial and scientific and technical potential of technologies, the level of competitive advantages of the product, the feasibility of implementing new ideas/technologies.

Public efficiency indicators determine the impact of project results on additional revenues to the budgets of the Russian Federation at various levels, as well as what social and economic consequences the project results have and whether this project improves the ecology of the environment.

- to introduce IT-development project management to increase the requirements for management procedures of investment control at all stages of its life cycle;

- develop a mechanism for collecting information on the results of the implementation of investment projects with the participation of project financing mechanisms in the territory of the Russian Federation.

IV. CONCLUSIONS

Project financing in Russia is currently in its infancy, building an effective system for implementing project financing in the country will be possible with a favorable economic and political environment and the development of the necessary legal and methodological framework.

V. DISCUSSION OF RESULTS

The expected results of the implementation of the activities proposed by the author of the conceptual provisions are:

- Creating an effective system of project financing in Russia;
- The entry of the Russian Federation to the world level of application of project financing in the implementation of investment projects, increasing the country's attractiveness for domestic and foreign investors and attracting them to strategic projects;

- An increase in the number of investment projects implemented through project financing, which directly affects the growth and stabilization of the economy of the region and the country as a whole;

- Increasing employment and increasing incomes, reducing social problems and tensions in society.

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