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**ANALYSIS OF THE CURRENT STATE OF VENTURE IJI IN UKRAINE,
DEFINITION OF FEATURES AND THE PREDICTION
OF THE POSSIBLE TRENDS OF THE VENTURE CAPITAL INVESTMENT**

The features of venture funding as one of the most effective ways of providing financial innovation processes.

In Ukraine for the venture business is pretty the wide range of activities, due to the fact, that the investors interested in the industrial restructuring, and new technologies in the small and medium business. Solving problems with weak legal framework significantly contribute to growth trends in venture investment.

Key words: collective investment institutions; venture investment; innovation process (project); venture business; venture fund.

Розглянуто особливості венчурного фінансування як одного з найефективніших способів фінансового забезпечення інноваційних процесів.

В Україні для венчурного бізнесу є досить широке поле діяльності. Це пов'язано з тим, що інвестори зацікавлені в промисловій реструктуризації, нових технологіях, у малому та середньому бізнесі. Розв'язання проблеми щодо слабкої законодавчої бази значно сприятиме тенденції зростання венчурного інвестування.

Ключові слова: інститути спільного інвестування; венчурне інвестування; інноваційний процес (проект); венчурний бізнес; венчурний фонд.

Problem formulation. A development of the innovative potential depends on the necessary financial support. The firms engaged in the innovation activities have to contend with a variety of obstacles to the realization of their activities. The most pressing aspect of the problems associated with attracting the potential investors. The reorientation of the economy on the financing and development of innovation processes quite often contributes to the improvement of the economy, that is, has positive effects.

The venture financing is one of the most effective ways of financial support of the innovative processes.

The venture capital is widely used in the most developed countries. Any financial investments in the innovative projects are quite risky, but it should be stressed that this activity brings the opportunity to make the high profits and to remain the competitive participants in the market.

Analysis of resent researches and publications. The study of the functioning and development of venture financing did these authors: I. V. Vlasova, V. M. Matiienko, S. M. Kryvorchuk [1], A. M. Vdovychenko, P. Kovalyshyn, D. L. Yatsenko, Y. V. Large, V. Matei, M. M. Pasco [2], L. V. Cherep, A. V. Peltek, H. A. Ihnatenko, H. V. Kabanov, A. I. Kharchenko and oth.

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So, in the works I. V. Vlasova, H. A. Ihnatenko, V. H. Kabanova, O. I. Kharchenko reflects the current status of venture business abroad and in Ukraine [3; 4].

V. M. Matiienko, O. I. Shchukin, S. M. Voit examines in their work the contemporary methods of assessment and analysis of the investment projects [5].

The problems of venture investment in Ukraine is dedicated to the work A. Almerai [6]. The peculiarities of activities of the venture funds as a means of accumulation and allocation of venture capital are discussed in A. M. Vdovychenko [7]. The author provides the guidance's on the implementation of their innovative features and formation mechanism of attraction of the free financial resources of the population. In the works A. V. Cherep [8], L. V. Peltek [9] analysed the current state of development of the venture funds in Ukraine, the main problems of their activity and possible ways of them overcoming. The role of government defines in creating an enabling environment for their development and integration into the international space.

On the three subjects is also the research of eleventh dedicated to the study of the relationship of government, business and science in the context of innovative investments.

Purpose of the article is to analyze the current state of venture financing in Ukraine, to determine the peculiarities of development and predict possible trends in the functioning of venture capital funds.

Main material. The venture financing is a hybrid form of security of the investment for the innovative companies, effectively combining the functions of both capital markets and banks. On the one hand, the venture investors forms the income for participation in the property finance innovative companies, with other hand-venture funds as well as banks have at the their disposal a system of informal monitoring and controlling the activities of the beneficiaries of loans [3].

The venture investing in the developed worlds is the most important source of extrabudgetary financing of innovation processes. For example, if you outline a venture business in the USA, it should be noted, that investors who invest in venture funds are primarily the pension, investment funds, insurance companies, University foundations. The expected return on such investments is approximately 25–30 % per annum.

The name “venture fund” comes from the English word “venture” – that is a speculation, a risky enterprise [7].

The risk, associated with the fact, that the moneys allocated for the output in production of new products, for which the demand is difficult to predict [8].

The venture investing usually carried out in small and medium enterprises. In practice more the common combined form of investment: one part of the moneys paid in share capital, and the other part is in the form of investment loan.

However, the analysis of potential to attract the investors for small and medium business in 2010–2014 showed that in this plane are quite a few the venture investors. The quality of the attracted investments indicates that they are involved in areas, where it quickly brings a return, as a result: fast and speculative earning of the investors and withdrawal there from the country. That is, the investments do not have much effect on the economy of country.

The mature stock market is an important factor in the development of venture business, because it ensures the liquidity of venture investments. The stock market should allow the free exit of venture funds from the invested enterprises by selling the block of shares [6].

In Ukraine at the present time for small business has remained, in fact, the individual investors are: banks, venture funds and so on. The small business in Ukraine, in general, is not

of interest to large the foreign companies, except for investments made by acquaintance. The venture funds and institutional investors (EBRD, IFC) are not interested in projects, that cost less than \$ 500 thousand and no the successful practice of business [10].

The peculiarity of the venture fund is to invest in the companies, which represent fast-growing industry, growing with the market and exit the investment before will come a decline in the growth potential of the market. It is this subtle and thought-out policies can lead to the significant income, when the risk taken.

The examples, where the term “venture fund” is defined by law, in the world practice are sufficiently difficult to find, however, in the many countries the activities of venture funds in the capital market are very noticeable and it is already for many decades [5].

Only in 2001 adopted the Law of Ukraine “On collective investment institutions (unit and corporate investment funds)” (CII) [11]. The interpretation of the concept of venture fund is quite different from the usual: we have it – the specific joint investment institute, the rules of formation, existence and closure of which is included in the general rules of the CII and companies of the assets management.

In Ukraine the fund is venture, if he is an undiversified collective investment institution of closed type, which carries out a private (closed) placement of securities of CII among the legal entities and individuals [7].

Thus, we can conclude, that the imperfection of Ukrainian legislation has led to the fact, which the venture funds designed to meet the financial and innovative function to implement the investment risk.

In Ukraine, CII are the unit and corporate investment funds:

- *the unit investment funds (UIF)*: the peculiarity lies in the fact, that the minimum amount of assets to sum 1250 minimum wages (on 01.01.2016, 1 725 000 uah);
- *the corporate investment funds (CIF)* are legal entities, that are created in the form of open joint stock company and operate solely on the co-investment.

To determine the trends and current status of venture funds of Ukraine, to benefit from the statistical data, that are summarized in table 1 [12].

Table 1

Dynamics of the market of collective investment in 2014 and 2015

Funds	On 01.01.2014, mln uah	On 01.01.2015, mln uah	The change over the year (2014 compared to 2013)	
			mln uah	%
Open's	593,31	240,72	-352,59	-59,43
Interval's	185,05	256,19	71,14	38,44
Private's (non-venture)	3785,99	6015,80	2229,81	58,90
All (non-venture)	4564,35	6512,71	1948,36	42,69
Venture's	58 694,30	76 028,21	17 333,91	29,53
All (with venture's)	63 265,05	82 540,93	19 275,88	30,47

This table is evidence that exist the trend of growth in venture financing in 2015 compared with 2014 to 29,53 %, or 17 333,91 mln uah.

Despite the crisis, positive growth in the volume of venture investment continued, but with decreasing acceleration. This is due, primarily, to increase the number of adverse risks.

According to the data in table 2 you can identify, that for the third quarter of 2015 venture funds of Ukraine increased by 2,33 % or 2070,96 mln uah in absolute values, compared with the second quarter of 2015. This analysis confirms a positive trend, but with a specific increase in the amount of venture financing (compared with 2014) [12].

Table 2

Dynamics of the collective investment market in 2015

Funds	On 01.07.2015, mln uah	On 01.10.2015, mln uah	Change for III-rd compared to the II-rd quarter	
			mln uah	%
Open's	248,83	243,43	-5,4	-2,17
Interval's	268,4	237,72	-30,68	-11,43
Private's (non-venture)	6510,53	8356,38	1845,85	28,35
All (non-venture)	7027,76	8837,53	1809,77	25,75
Venture's	88 818,03	90 888,99	2070,96	2,33
All (with venture's)	95 845,79	99 726,52	3880,73	4,05

This state of venture financing in Ukraine due to a number of reasons:

- the instability of the economic and political environment;
- the contradictions of legislation in the field of business law;
- the tax loophole system;
- the absence of preconditions for the creating of venture infrastructure;
- the inertia of the state in support of venture businesses;
- the underdevelopment of the securities market;
- the lack of understanding by local entrepreneurs of the mechanism of venture investment;
- the fear of losing of business control, allowing to manage your business a foreign co-owner and others [9].

Meanwhile, the managerial personnel of the company, taking into account the different situation, can choose the most appropriate type of financing at the expense of external funds, considering the advantages and disadvantages of different sources of venture financing (table 3).

The comparative analysis of sources of financing innovations [5]

Sources of financing	The requirements of innovative project	The advantages of using	The disadvantages of using
State financing	The social importance. The financing of priorities directions	Is carried out in cases, where it is impossible to obtain the financing from the commercial-governmental sources; to demand to be paid less the amount of money and for longer period of time	The restrictions of directions use. The difficulties in receiving, mainly the small amounts
Loan financing	The liquid collateral. The positive credit history. A clear business plan for the project	The flexibility in attracting and servicing the financial program	The high commission rates. The additional terms of agreement
Venture financing	A clear business plan of an innovation project	The consistent with the business plan the ability to attract the significant amount of money	The possibility of reorientation of the innovation project the investor, the possibility of personnel changes

Table 4 and fig. 1 shows the structural components, which represented a venture fund in the third quarter of 2015.

Table 4

The structure of venture funds in Ukraine in the III quarter 2015

No	The components of the venture funds in Ukraine	%
1	Other assets	54,45
2	Real estate	1,58
3	Cash and bank deposits	2,89
4	State bonds	0,04
5	Local bonds	0,00
6	Shares	10,96
7	Corporate bonds	10,56
8	Savings certificates	0,10
9	Other	19,42

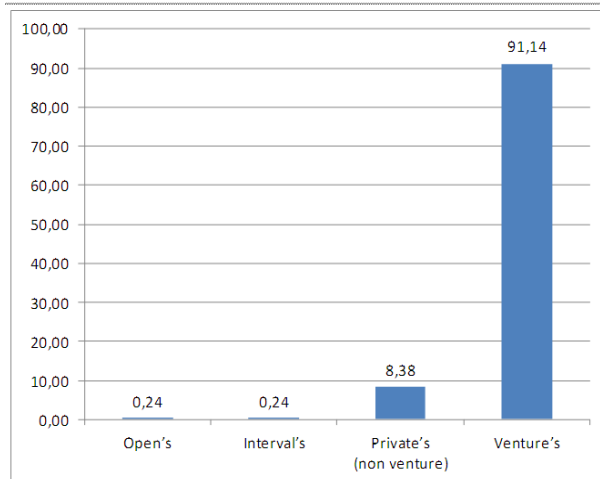


Fig. 1. The distribution of mutual fund assets in III quarter 2015

After summing up you may find, that the securities in such a distribution are only 41,08 %.

To ensure the effective use of scientific – technological and intellectual potential of Ukraine through the development of venture business and supporting the production of high-tech, competitive and quality products, we consider it necessary the following measures (table 5).

Table 5

The measures of state support of development of the venture business

The measures of state support of venture business	The feature of event
1	2
To create a state venture fund	Should realize the direct provision of venture funds and innovative enterprises (in the form of indirect investment, or loans at low interest rates)
To develop the concept of development of national venture industry	According to the concept of the main entities of the implementation of the state policy in the sphere of venture capital should be a State Commission of regulation of financial services market and State Commission of regulation of the securities market, which needs the significant attention and control given to the formation and implementation of unified state policy for the protection of investors, attract the investment capital and technology development and functioning of the securities market and their derivatives, circulation of shares in the secondary market, to facilitate the adaptation of the national stock market to international standards

1	2
To improve national legislation on venture financing	To develop legislation relating to the small venture firms and venture funds, this should determine their legal status and provides for the certain government guarantees and stimulus in their functioning. To make adjustments to the Law of Ukraine “On collective investment institutions” to allow individuals and insurance companies, to pension funds to be participants of venture funds
To review and implement schemes of tax stimulation of innovation activity	The provision of taxation benefits only to those venture funds, which provide financing for projects that meet the priority areas and the strategy of innovative development of the state. A development of the programs and mechanisms concerning the possibilities of application of tax holidays for small and medium venture firms. The creation of the favorable public policy for venture financing, in particular in the field of customs legislation as, for example, in the Great Britain
To introduce financial incentives for investment in venture funds of the small and medium innovative enterprises	The reducing of government of the risk venture private investors, including through state guarantees on loans to the venture funds or new small businesses and the encouraging the diversification of private venture funds through the government venture fund in specially selected projects. The development and implementation of the mechanism of state credit insurance, that to provide by the market financial institutions under the implementation of innovative projects
The introduction of the secondary market of certificates of the venture funds	For the adoption of laws, which regulate the activity in the stock market, in particular, the new edition of the law of Ukraine “On securities and stock market”, law of Ukraine “On joint stock companies”; it is necessary to pay more attention to the protection of the rights of shareholders and protection of rights of investors-physical persons, who have invested in open funds
The settlement the system of protection of intellectual property of the Ukrainian researchers and entrepreneurs	Through the state support of international patents from the most promising developments and introduction of more effective protection of intellectual property from the violations

1	2
The creation of the necessary conditions for the development of informal venture financing	It is extremely important at the early stages of development of firms, which requires the changes of the civil legislation regarding the assignment of property rights of business-angels in the venture projects. Traditionally, business-angels invests smaller amounts compared with venture funds (from 25 to 50 thousand euro), but their total investment in Europe is ten times more investments institutional sector. The countries, which have the experience in creating the networks of business-angels. To stimulate increased the investments by ensuring thorough the checking of projects and organizing meetings of the parties
The creation of a system of coaching-centers for venture entrepreneurship	The objective of the coaching-centers is to prepare the specialists of venture entrepreneurship and the formation of Networking that is, ensuring a high level of formal and informal relations between the representatives of the venture I Industry. This system will facilitate the emergence of new financial institutions, which supports the infrastructure on national and regional levels. For this purpose it is necessary to increase the state order for training and retraining of personnel for innovative activity of the state educational institutions and to establish and develop the mechanisms for training of the students in innovation management at leading universities in the developed countries

In addition, the urgent assignment of the government is to create an industry of venture business, which not only provide a stabilizing function in general in the country, but also affect the formation of innovation strategies of enterprises [9].

The venture funds can perform only the private (closed) placement of securities, sell them in the advance certain circle of persons. As a consequence, the financial resources of the population can go to the venture funds only through savings in the other financial institutions. This limited the way of the flow of funds in the financing of innovation funds.

The analysis table 6 and fig. 2 is necessary in order to show how much the annual profitability of venture CII is the largest in Ukraine. In 2014, this profitability has even increased quite significantly, to 19,76 % (in 2014 compared with 2013), also see table 6 provides a comparative analysis: annual profitability on deposits (in uah) in 2013 amounted to 42,74 %, and from venture CII at 22,98 % profitability on deposits, lower at 19,78 %. This may indicate that the confidence in the deposits decreased by the crisis phenomena, and to the venture funds – on the contrary. There is a trend of continuous growth of the profitability.

The decline of inflation (in 2015 compared with 2014) also has a positive effect on the development of venture business and the real return of venture CII.

The annual profitability in 2014 and 2015

The yield on the directions	2014	2015	Change 2015/2014 (%)
Inflation (consumer price index)	22,30	12,30	-10,00
Deposits (uah)	16,71	21,00	4,29
Venture CII	22,98	42,74	19,76

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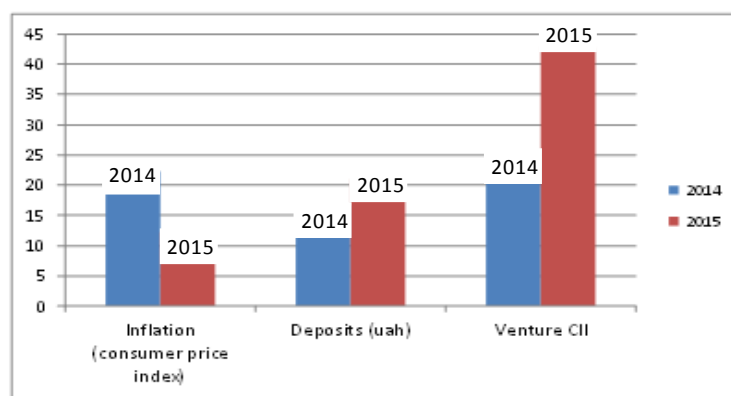


Fig. 2. The annual profitability for the direction in 2014 and 2015

Conclusions and further researches directions. The results of the study indicate with the modern venture market in Ukraine is in a state of formation and development, and, therefore, has the significant potential for development and integration into the international space.

The study of venture funds as a means of accumulation and allocation of venture capital shows that it is a major source of support for the development of innovative enterprises and the growth of innovative potential of the country.

The modern state of the venture funds has the certain features and certain aspects, which need to be arraignment, namely:

– need to reform the national legislation, in order to erase the contradictions of appointment and functioning of venture capital of Ukraine. Today we have two bills designed to solve these problems: bills “On venture funds” and “On venture funds of innovation development”;

– it is necessary to develop the mechanism of investment of the financial resources of the population to venture funds, would have its real application in practice. For example in the USA, the private investors can freely invest in the venture funds and it is rather powerful to generate its resources;

– to create the conditions for government to facilitate the investments of venture investments in the high-tech innovative industries, for the purpose of recovery;

– particularly noteworthy about the need for the government support and development of a mechanism to attract the venture funds to the small and medium-sized business, because the risk capital is virtually the only source of financial support. This is due to the fact, which the development of small and medium business is fast enough and requires the additional external investment.

So, summing up the above, we can testify to about the positive tendencies of development of a functioning venture CII, and should indicate a huge potential for further activities on the development in this area. Today in Ukraine for the venture business is quite a broad field of activity. Due to the fact, that the investors are interested in the industrial restructuring, new technologies for the small and medium businesses. The solution for the relatively weak legislative framework, will contribute significantly the trends of growth of the venture capital.

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