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**DEVELOPMENT AND PROBLEMS OF FINANCING
VENTURE BUSINESS IN THE MODERN RUSSIAN ECONOMY**

ABSTRACT. Nowadays enterprises' research and development and elaboration of innovative activity have become particularly important due to ever-increasing globalisation, increasing competition in the global market and the fight for new technologies among firms. Thus, venture companies and venture capital financing from the state and the private sector provide innovative development of a country's economy, contribute to the development of new technologies and the promotion of high-tech products. The aim of this paper is to analyze the situation in the market of venture business in the Russian Federation, as well as to work out recommendations for its further development. This goal has been achieved by defining venture companies' position in the world economy and in the Russian economy, pointing out tendencies and prospects of their development; by identification of the key problems that prevent these companies from developing and also elaborating recommendations to solve those problems. Modern concepts of market economy, management and innovative management were used as the methodological basis of the paper; the solution of tasks was carried out on the basis of structural analysis, statistical analysis etc. The results of this work are the identification and analysis of the weaknesses of venture capital financing in Russia (e.g. lack of special regulations in this sphere, insufficient funding support of innovators at early stages of projects, weak integration of companies into the global innovative and venture ecosystem etc.) as well as development of recommendations for their solution, such as expansion of venture fairs, using international experience and collaborating with relevant international organisations, creation of seed and early-stage funds to support small technology companies, development of the system of expertise and services. The results can be used by managers of public institutions as a measure of venture companies' development in Russia; heads of various companies can apply those results in defining their economic strategies to survive in conditions of international competition and globalisation.

KEY WORDS. Venture firm, innovation, financial resources, venture funds, investor, grant, technical enterprise, venture infrastructure.

World experience shows that without effective venture business it is impossible to provide innovative development of the economy. This kind of business is a guide for advanced scientific and technical ideas in the spheres of production and consumption. It promotes innovation, greatly simplifies access of innovative companies to financial resources, and increases the level of commercialization of scientific and technical products. In many advanced countries the promotion of business venture is considered as a national strategy for the development of science, technology and

innovation, defining the priority areas of the economy. The state is the largest and in some countries the main investor in new technology and innovation. Thus, despite the financial crisis of 2008-2009, \$ 16 billion or 0.11% of GDP was spent in the U.S. in 2010, in Germany — 1.4 billion, or 0.1 GDP [1, 21]. Thanks to the active steps taken by the venture business, today it is possible to speak of progress in our country on this point. In 2010 the domestic economy had the greatest number of active venture capital funds (170), which increased compared to 2001 by 4.5 times. Overall, despite some slowdown compared to the pre-crisis period in the rate of involvement of investors in the existing structure of a venture business, the venture market is evolving and adapting to the current domestic economic situation and current global trends. The total amount of capital venture funds and private equity funds in the Russian market grew by 6.2 times compared to 2001 and reached the value of 16.8 billion dollars against 2.7 billion dollars. The most attractive areas for investment as compared to previous periods were, first of all, transactions in information and communication technology (ICT), financial services and the consumer market (half of total investment). Analysis revealed that in 2010 the companies that were at the «venture stages» of development (seed, start and early) enjoyed total investment of approximately \$ 153 million (about 6% of the total). The main contribution (about three-quarters) in investments in venture stage funds was provided by various programs of public-private partnerships. Venture stage transactions were mostly in the ICT sector, branches of medicine, health care and industrial facilities. The average deal size for the venture stage was \$ 2 million, with annual venture capital investment in Russia not exceeding 0.01-0.02% of GDP, compared to 0.08% of GDP in Poland, 0.28% in Korea, etc [2].

Let us consider the problems that exist in the Russian venture business and prevent it from dynamic development. Firstly, attention is drawn to the lack of adequate legal regulation of private equity and venture capital investments, including in the area of taxation. There is no established pattern of interaction between developers and investors; there are many problems, both infrastructural and psychological. For example, it is no secret that developers do not have a clear idea of the expenses necessary for developing and marketing products. Statistics show that the cost of development, even in developed countries with very highly-paid skilled labour, is rarely more than 25-30% of the total cost. The organization of mass production costs about a third of the total, and about the same sum is spent on actual marketing activities to promote the product to the market and on its distribution [3, 102]. In Russia the cost of development is usually lower, while the expenses for the organization of mass production due to the wear of the production lines and the need to acquire almost 100% of the required equipment are higher, as well as the share of expenses on promotion on the market of finished products. As for legal regulation of venture capital activity, there is also a lack of specific regulations. The legal definition of «venture» is blurred. The issue of a concessional financing mechanism for venture activities requires further attention. In this regard, the weakness of the Russian budget should be noted, as the government cannot effectively support technological entrepreneurship as, for example, it is done in developed countries which have a two-tier system of

grants, with financing projects of the first level of up to 50 thousand dollars and of the second up to 500 thousand dollars. To solve this problem somehow, it is necessary to introduce tax benefits associated with equity investment projects. These tax benefits are especially important for the companies engaged in the commercialization of new Russian technology. Still the amount of grant to support innovators at the early, pre-stages to establish a stable flow of projects is inadequate, and the mechanism of raising finance for these projects is limited. This may also include lack of services and lack of infrastructure for venture investment development. Establishment and maintenance of a stable infrastructure is the main problem at this stage. Why is it especially important for venture investment? Venture capital investments are long-term in contrast to many other industries. The investor investing today wants to be sure that in a few years the political and economic situation as well as the legal framework will not change. Even if the laws are not fully finalized, investors should be aware that there will be no unexpected changes [4, 127]. Another problem is the lack of efficient technical regulation and a shortage of qualified personnel. E. Dyson, venture capitalist and founder of EDventure Holdings, said: «Russia has enough entrepreneurs with good ideas, it is easy to find money in the market and smart programmers. But it is very difficult to find experienced middle managers, chief financial officers, project managers, etc. In other words, it is easy to start a business but it is difficult to «grow» it [4, 130].

In addition, implementation of innovations is prevented by lack of money, lack of free funds within companies, as well as the low availability of funding from external sources. A serious obstacle is weak integration into the global innovation and venture capital ecosystem and significant barriers to international operations of innovative startups. It is impossible to import R& D products temporarily in Russia, because samples cannot be identified by formal criteria: serial number, manufacturer, country of manufacture, etc. As a result, Russian companies have limited access to cutting-edge resources, development and technology, and in order to conduct joint research with foreign R&D colleagues it is necessary to open subsidiaries abroad [5, 79]. We should also highlight the problem of information support of the venture capital industry. In some regions, entrepreneurs often do not know about the possibility of attracting private investors, and if they have heard about it, they often do not have reliable information about the practice of business. Recently, various venture capital centres (venture offices or centres of venture capital support) began to appear throughout the country. They, in fact, imitate company support with promises of venture capital funds. Without having sufficient professional knowledge and contacts, these so-called «support groups» distract companies' management, which wastes time and money and sometimes misses a real opportunity to attract investment by visiting the venture fairs or other activities held by the professionals of the market. On the other hand, the lack of information about the companies which are interested in attracting investments, about investors willing to provide capital for business development as well as the methods of their work, is one of the main reasons that inhibit the development of venture business in Russia [6]. In connection with the identified

problems of the Russian venture business, the following solutions are offered (some of them are also highlighted in «Strategy of development of the venture capital industry in Russia»). In order to provide information support to the participants of the venture business, it is necessary to expand the practice of venture fairs in different regions of Russia as well as to develop other communication platforms and networks such as professional associations and unions of investors, electronic exchanges of technology, specialized Internet portals on Venture Enterprise, also to conduct investment forums and forums of entrepreneurs, industrial and economic conferences, etc. Addressing these issues will also require organisational and financial support at federal and regional levels. While developing the venture capital industry's infrastructure it is important to use international experience and the possibility of cooperation with relevant international organisations and programmes. This will form a national system with harmonious organisational, economic and legal mechanisms that facilitate the involvement of foreign venture capital investors in Russia. In the regions of the Russian Federation it is necessary to establish seed and early-stage funds that provide financial support to small technology companies at the early stages of development. The source of such funding may be the money that will be returned to the State by its withdrawal from previously created venture funds by selling its stake. The procedure of such funds' formation and operation, particularly the use of public resources, must be approved by government resolution. It is vital to continue developing the system of expertise and a range of services. We mean, above all, legal, information and accounting support. Any start-up without this support, without the ability to conduct civilized business, is doomed to failure. And if a newly-created innovative business has to hire a staff of lawyers and accountants, it inevitably leads to an increase in risk. As for the prospects of development of the venture business in Russia, many experts are in agreement: our country has the potential to become a new high-tech centre, the world's leading venture capital industry. Russia is still one of the few countries (along with the U.S., the EU and China) which conducts the whole range of research. An example of effective cooperation between investors and developers is investment conferences: Venture Projects Fairs. In recent years, this mechanism has been tested several times. Thus, the most successful projects were presented at the Venture Projects Fair in December 2000 (First National Venture Projects Fair). It was followed by an investment conference and venture projects fair (conducted with the assistance of the Moscow Government, the «Zelenograd» Technopark, the National Venture Company) and the Second All-Russian Fair. By now, 12 Russian Venture Fairs have been held. In Russia, «strong» entrepreneurs in high-tech are gradually appearing, the quality of deals is increasing. Companies striving for investments today are very different from those 10 years ago. In recent years, a high-tech investment industry has rapidly formed: a fact that stretched over dozens of years in other countries has happened in no time in Russia. It is possible to borrow the best experience to attract and develop the most effective models of company management. The lull in the U.S. and the EU helps to attract experienced entrepreneurs to Russia. Russian private investors have already taken the first steps in the financial market, but in order to make them more confident,

they need state support. Funds of \$ 100 million are not a huge sum of money at federal level and should be spent to launch a mechanism of business venture because it allows to create a lot of new jobs and develop the country technologically using all previously accumulated intellectual resources. In addition, the domestic economy is gradually accumulating the experience of formation and development of companies implementing their projects in the venture business. Among them there are examples of successful commercialization of Russian technologies and venture capital, such as Mail.ru (estimated value: \$ 866 million), Yandex (\$ 1-5 billion), Petro Alliance (\$ 650 million), Rambler (\$ 570 million), Corbina Telecom (\$ 345 million) etc. Thus, Russia has a huge potential and good prospects to become the centre of venture capital on a par with other developed countries.

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