

UPDATING THE UKRAINIAN VENTURING MODEL

Prof. Dr. Julia Yereshko

Technische Universität München-IAS
Department of Economic Cybernetics
Igor Sikorsky Kyiv Polytechnic Institute

Prof. Dr. Hanna Hottenrott

Department of Economics and Policy
Technische Universität München

Prof. Dr. Iryna Kreidych

Department of Economic Cybernetics
Igor Sikorsky Kyiv Polytechnic Institute

Prof. Dr. Maryna Kravchenko

Faculty of Management and Marketing
National Technical University of Ukraine" Igor Sikorsky Kyiv Polytechnic Institute"

The idea behind a research

What do we have now:



What do we want our future to look like:



And the most **efficient** way to turn **this** ↑

into **this** ↑

is **Innovative Development**

The idea behind a research

What are main components of innovative development?



INVENTIONS



TECHNOLOGIES



INTELLECTUAL PROPERTY



KNOWLEDGE



GOVERNMENTAL FINANCING



PRIVATE INVESTMENTS



INTERNATIONAL INVESTMENTS AND FINANCING



VC

Where adjustments are needed?



COOPERATION AND REPUTATION



TAXATION AND CORRUPTION

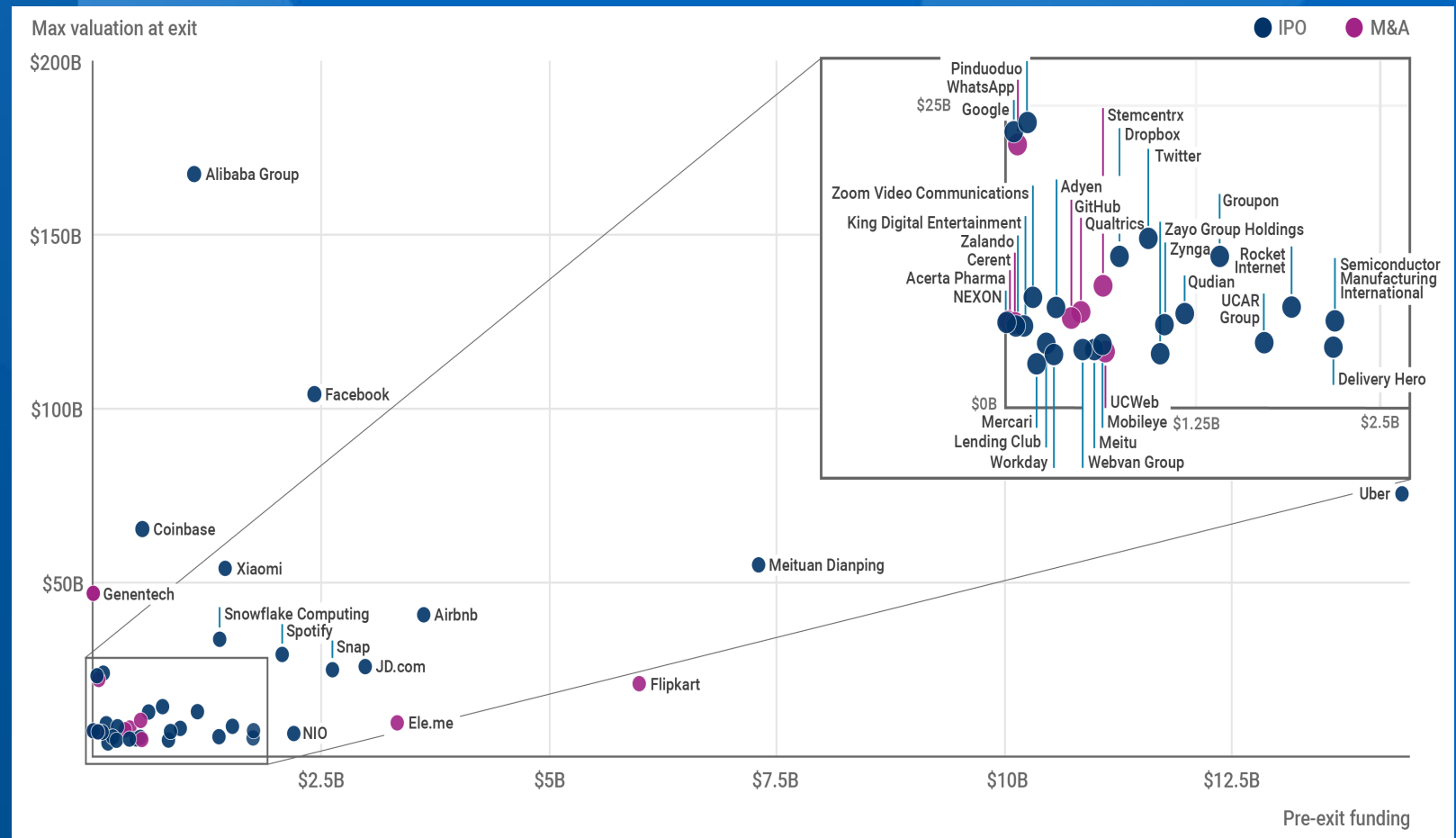


LEGISLATION



A little bit of history and facts

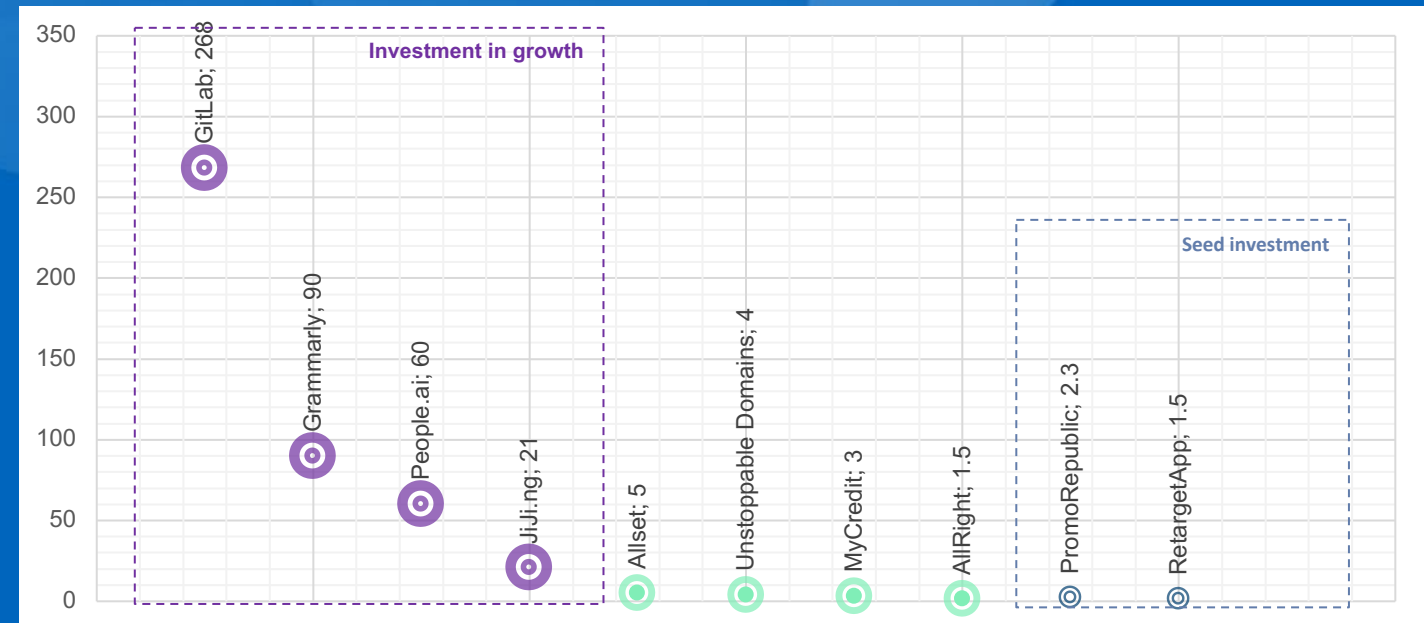
- Nowadays, VC accounts for less than 3% of corporate R&D expenditures, at the same time generating more than 15% of industry innovation.
- One "venture" dollar in R&D is almost 10 times more efficient than a dollar invested in "big" business
- VC was crucial for most innovations in the last 60 years, namely: microprocessors, PCs, genetic engineering technologies, etc.
- History of VC began after the end of World War II, but only in 1978 industry experienced its first boom, with total investment returns rising to \$ 750 million
- The next boom was in 1990s, with active development of Internet and IT and industry only continues to grow



So, does it work the same in Ukraine?

- The formation and development of the venture business in Ukraine began in 1992 with the establishment of the Ukraine Fund, in 1994 - the Western NIS Enterprise Fund
- Unfortunately, with the adoption of the law "On mutual investment institutions" in 2001, Ukrainian VC model has become, in fact, a tracing paper from the Russian.
- Ukrainian VC model is based on a favourable tax regime and limited liability of participants
- Hence, in contrast to the United States and Europe, preferable for VC investors are mainly: construction, agriculture food industry, retail and VC funds are mostly being used to relief the tax burden and money laundering.

	Europe	Region	Bulgaria	Hungary	Poland	Estonia	Ukraine
Seed	681,002	91,046	3,470	50,243	16,670	4,567	3,830
Start-up	6,629,719	155,082	3,125	49,880	45,091	7,933	7,093
Later stages of development	4,673,260	111,404	970	25,410	50,157	9,575	16,154
Total venturing	11,983,981	357,533	7,565	125,532	111,918	22,075	27,077



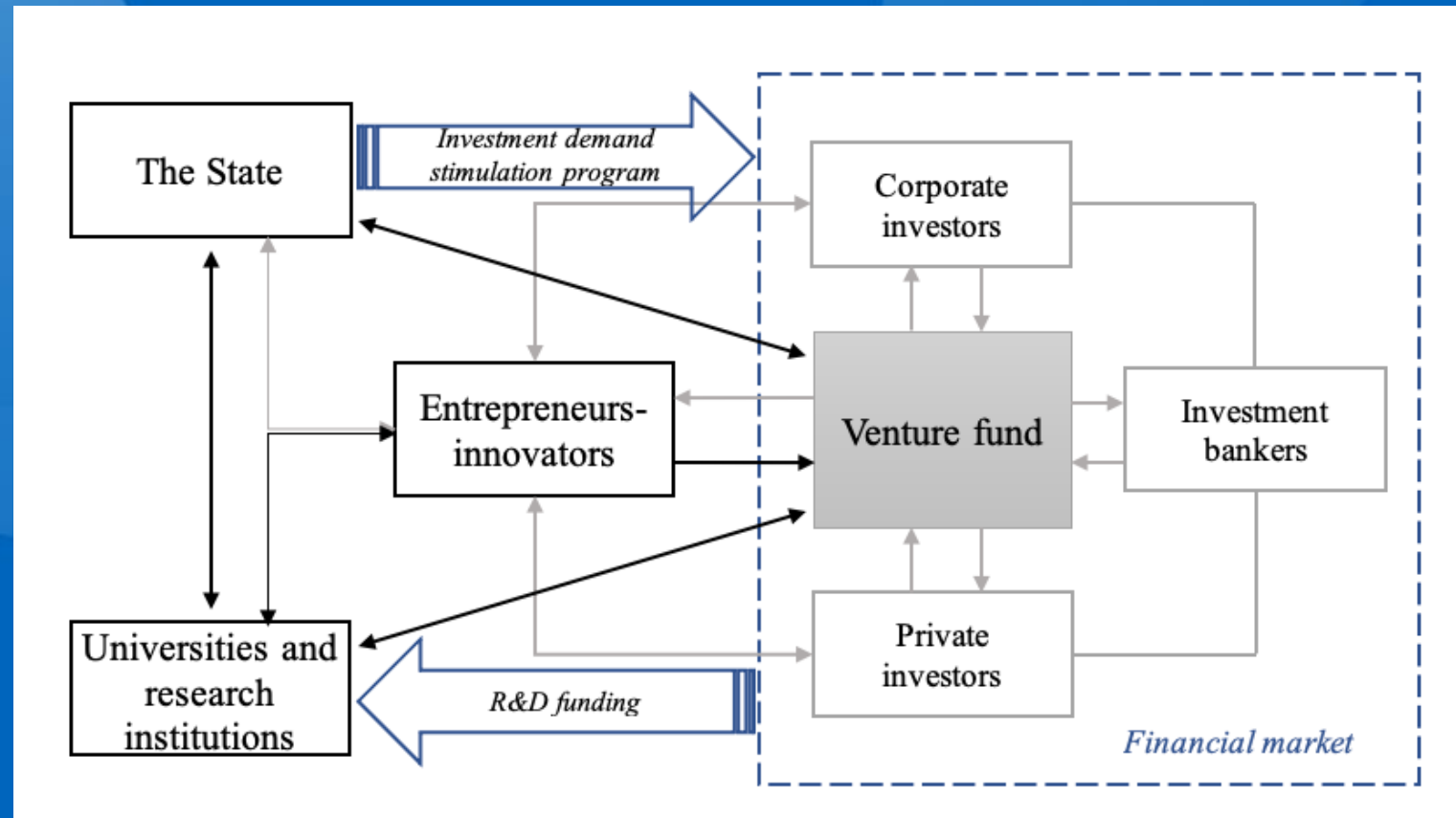
So, what are those peculiarities of Ukrainian VC?

- VCs are mostly used to reduce tax burden
- They are utilised mostly by “big business” (usually by large industrial and financial groups)
- Or for unprofitable refinancing of borrowed assets
- As well as money laundering, as VC founts aren't obliged to issue debt securities
- Mainly construction, industry and retail. With only exeption being the Start-ups

! Thus, venture investment in Ukraine is basically a distorted version of global venture business, designed to generate excess profits for financial and industrial groups, holdings and corporations.

What do we propose?

- Venture fund is formed by three main groups of investors: corporate and private, as well as investment bankers
- The role of the state in the fund's finances is reduced more to incentives than to direct participation in capital
- The task of investment bankers is to convert the investments made by the fund into an enterprise into financial instruments and their subsequent implementation on the market
- In general, funding for innovation and research takes place outside - for example, in the form of bond circulation, or portfolio investment
- The role of universities and research institutions is to "supply" intellectual capital (in the form of ideas, developments, personnel, competencies, etc.) to entrepreneurs, investors and venture funds, as well as to participate in the selection of projects to receive funding



Cash flows are shown in grey, mixed and intellectual ones – in black

Conclusions

- 1) the economy of the venture sector is not devoid of cyclicity;
- 2) the history of venture proves the success of investing in innovative and high-tech enterprises;
- 3) venture investment cannot be concentrated exclusively in the sphere of large financial-industrial groups;
- 4) it is advisable to rationally combine public, private and research components of the investment process, i.e., there is a need to involve institutions, researchers and the scientific elite in the venture industry

Therefore, there was proposed the updated venturing model for Ukraine, taking into account the peculiarities of the economy and a thorough rethinking the existing structure of venturing. Updating the venture capital model is only one component of a comprehensive program to stimulate investment demand, which also provides for: ensuring macroeconomic stability; ensuring economic freedom; ensuring economic security; increasing the investment resource; influence on the propensity to invest; liberalization and development of the financial market; stimulating investment activity through the mechanism of state support for partnerships between business and science. Thus, carving the field for further studies.

Thank you!

МИ ПЕРЕМОЖЕМО!

ВСЕ БУДЕ УКРАЇНА!

**ECO-ENA: Economics & ECO-
Engineering Associate, Inc.®**

www.eco-ena.ca



ECO ENA Researches & Policy Analyses

The 9th Annual Conference of Economic Forum of Entrepreneurship & International Business

Venue: LMH, University of Oxford, United Kingdom

Date: February 1st, 2023.