

M.U. Karpushenko

O.M. Becetov National University of Urban Economy in Kharkiv

FEATURES OF INVESTING VENTURE CAPITAL IN UKRAINE

The article deals with the problem of investing in Ukraine. The characteristics of venture capital funds financing, trends of foreign investment, factors that affect the investment climate in Ukraine were studied in the paper. Particular attention was paid to the methods of assessing the investment attractiveness of business. The technique "due diligence" was presented as a method of informing potential investors about the opportunities, risks and threats that accompany investing. The most important areas for analysis and the features of application this system in Ukraine were considered. The possibility of interaction between the state as a guarantor of returning capital to investors and venture capital funds has analyzed.

Keywords: *venture capital, investment, due diligent*

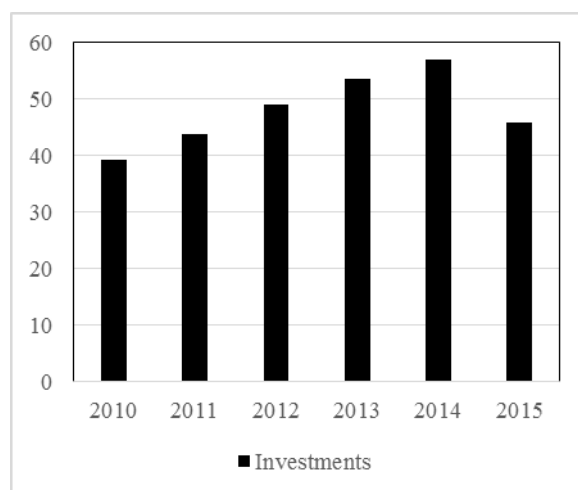
Introduction. Currently business development in Ukraine has certain constraints, which adversely affect the investment climate in the country. In such condition, very important to provide optimal methods which can ensure the effective operation of venture capital funds.

Background of study. Problems of venture capital solved a long time ago in the European Union and the United States. Some authors, such as Heger D., Fier A., Mason C.M. [5-9] focused the attention on regional and state support of venture capital funds and evaluation of investment attractiveness. The issues of venture capital funds to pay attention such scholars as Yanchenko Z.B. [2], Orlyuk O.V. [3] and other scientists. They identified many problems in Ukraine, which prevent widespread use this type of investment. Therefore, it is necessary to study this issue and suggest possible methods for evaluating the reliability of investments.

The purpose of the paper. The paper aims to develop recommendations for evaluating investment opportunities for venture capital funds and suggest possible options for interaction between the government and investors in the course of implementation of investment projects.

The main results of research. The mechanisms of venture investment practically do not work in Ukraine to date. However, professionals are investing venture capital into new businesses with perspectives of growth all over the world. Typically, venture capital invested into innovative enterprises, especially in high technology.

The functioning of venture capital funds regulated by the Law of Ukraine "On Collective Investment Institutions" [4]. However, this normative document does not contain provisions for regulate investment in new attractive projects. Specificity of the national market economy contains many dangers for businesses, which have to work in conditions of high risk [1]. Recently the situation in Ukraine remains unstable, due to the problems in the banking sector, political situation and war in the country, which caused the outflow of foreign capital (drawing1).



Drawing 1. Dynamic of foreign investment in Ukraine, milliard dollars

Indeed most of the foreign investors are realizing the risks in such conditions - unstable political, economic situation, the crisis of the banking sector, co-investment. The vast majority of investors do not invest in Ukraine at this moment. This is understandable as investors want to get some assurance of profitability and the return of their investment. To date, the Ukrainian legislation established a number of guarantees for foreign investors:

- investments in Ukraine could not to be nationalized, public authorities have no right on investments;
- foreign investors are entitled to claim compensation for damage caused public authorities or local authorities by unlawful acts or omissions;
- immediate transfer of income of foreign investors, profits and other funds unimpeded;
- foreign investors could return their investment and income on these investments within 6 months after the cessation of activity .

Practically such guarantees are not enough, as foreign investors working directly with businesses and

the state does not intervene on such relations. It is quite difficult to predict the future prospects at the moment of investment in businesses, especially in start-up. Due to this fact, venture capital is a risk capital. The system due diligent- investigation or audit of a potential investment applicable for the evaluation of investment objects attractiveness. The due diligence process advantageously carried out in the following areas:

1. Financial audit- to evaluate financial performance and predict the return on investment.

2. Legal/environmental audit are reviews of a company's operations and processes to determine compliance with environmental regulations. ;

3. Marketing audit - is a comprehensive, systematic, independent and periodic evaluation of a company's marketing assets.

4. Production audit is the tools to assess the effectiveness of manufacturing process and quality performance.

5. Management audit is a systematic examination of decisions and actions of the management to analyze the performance

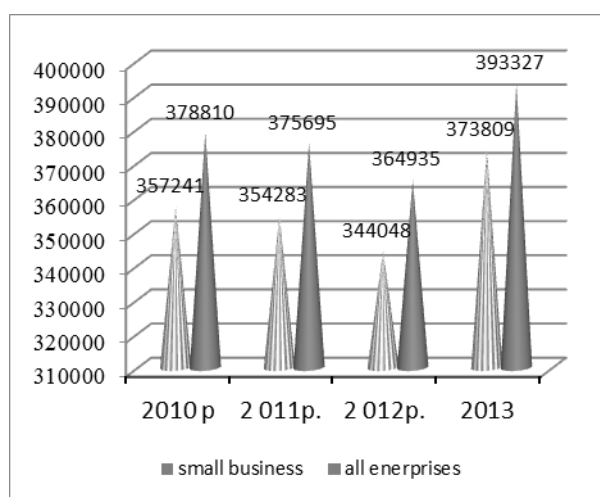
6. Information systems audit is an examination of the management controls within an Information technology (IT) infrastructure.

7. Macro-environment audit- the major external and uncontrollable factors that influence on organization's decision making, and affect its performance and strategies. These factors include the economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces.

8. Reconciliation audit- consolidates other audit areas together via a formal valuation in order to test whether shareholder value will be added.

The results of audit investment attractiveness must be analyzed and evaluated.

It should be noted that in Ukraine most businesses are small businesses (drawing 2).



Drawing 2. Dynamics of enterprises, units

The figures indicate that a large proportion of enterprises - 94-95 % up small businesses. The

system of accounting and reporting was simplified for such enterprises. Moreover, the owners of a number of projects are private entrepreneurs who do not prepare financial statements reports. In this case, assessment of business profitability could not be strict enough.

Therefore, taking into account such features of the Ukrainian business, results of financial audit must be evaluated as a component with the highest risk. That is why the value of profit can significantly deviate from the planned figure. Investing in preferred shares of corporate companies is the surest chance for owners to have a stable income. One of the promising mechanisms is the cooperation between the state and companies-public-private partnership that provides mutual investment of the state and private investors.

For creating a favorable investment climate some mechanisms at the state level must be implemented:

- to encourage the fundraising financial lending institutions, domestic and foreign investors in venture capital funds, for investing to the most attractive projects;

- compensation by regional (municipal) budget the interest on bank loans obtained for investment projects by small and medium enterprises;

- formation the regional databases of enterprises investment proposals, electronic exchange of innovations aimed to the promotion and advertising of small business innovation.

Conclusions. We can conclude that effective use of European experience of public-private cooperation will take into account the modern realities, which will create favorable conditions for venture capital funds in Ukraine and increase foreign investment. Application of audit procedures for all areas of the investment object will allow to determine potential opportunities and threats of investments. The future development of business in modern conditions is impossible without information, innovation, financial state support, which should be implemented on the national and regional levels.

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Author: KARPUSHENKO Mariia Uriivna
PhD, Associate Professor, O.M. Beketov National University of Urban Economy in Kharkiv
E-mail – Karpushenko_m@mail.ru

ОСОБЕННОСТИ ИНВЕСТИРОВАНИЯ ВЕНЧУРНОГО КАПИТАЛА В УКРАИНЕ

М. Ю. Карпушенко

В статье рассматриваются проблемы инвестирования в Украине, факторы, влияющие на инвестиционный климат, тенденции иностранного инвестирования. Анализируются особенности венчурного финансирования, проблемы, с которыми могут столкнуться инвесторы, риски и угрозы, вызванные особенностями функционирования предприятий в Украине. Рассматривается возможность взаимодействия государства, как гаранта возврата капитала инвесторам. Особое внимание уделяется проблемам оценки инвестиционной привлекательности бизнеса- due diligence- как механизма, способного проинформировать потенциального инвестора о тех возможностях, рисках и угрозах, которые сопутствуют инвестированию. Выделены особенности применения этой системы в Украине, определены наиболее важные направления для анализа.

Ключевые слова: венчурный капитал, инвестиции, дью дилидженс

ОСОБЛИВОСТІ ІНВЕСТИВАННЯ ВЕНЧУРНОГО КАПІТАЛУ В УКРАЇНІ

М. Ю. Карпушенко

У статті розглядаються проблеми інвестування в Україні, фактори, що впливають на інвестиційний клімат, тенденції іноземного інвестування. Аналізуються особливості венчурного фінансування, проблеми, з якими можуть зіткнутися інвестори, ризики і загрози, викликані особливостями функціонування підприємств в Україні. Розглядається можливість взаємодії держави, як гаранта повернення капіталу інвесторам. Особлива увага приділяється проблемам оцінки інвестиційної привабливості бізнесу - due diligence- як механізму, здатного проінформувати потенційного інвестора про ті можливості, ризики і загрози, які супроводжують інвестування. Виділено особливості застосування цієї системи в Україні, визначені найбільш важливі напрямки для аналізу.

Ключові слова: венчурний капітал, інвестиції, дью ділідженс