VENTURE INVESTMENT AS ONE OF THE TOOLS
FOR THE DEVELOPMENT OF THE COUNTRY’S ECONOMY

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Especially in the early stages, entrepreneurs need more than just encouragement and moral support. European governments understand the fact that entrepreneurship creates jobs and is good for the economy. Recognizing the value that startups provide, governments from all over the continent are putting forward different types of initiatives to help their local startups succeed and grow. There are numerous different government approaches to supporting a local ecosystem, it seems most focus on a few
core elements: ecosystem visibility, encouraging investments (especially early-stage or business angels-led funding), ease of setting up a business, immigration, and business growth and acceleration [1, 2, 3].

For example, the German government, the ERP Special Fund, the German Länder and the EU all provide support programs for start-ups. Typically, these take the form of public development loans with favorable interest rates, long maturities and, in many cases, initial grace periods before the repayment obligations kick in.

Both France and the UK seem to have put visibility at the center of their government-led initiatives, creating international brands for their tech community. For example, Tech City UK has built a very solid brand for itself and just about everyone seems to naturally link the words “TechCity” with “London.” In addition, TechCity has contributed to some of the UK’s most beneficial programs for entrepreneurs, including the Seed Enterprise Investment Scheme (SEIS – providing tax breaks to early stage investors), the Patent Box and even the entrepreneur visa.

The Government has proposed setting up a national investment fund to help fledgling UK businesses thrive and compete with their US counterparts, even after Brexit.

It also highlighted that British businesses currently rely on financial backing from the European Investment Fund (EIF). One of the rationales for setting up a new dedicated fund would be to ensure that firms still have access to the funding they need, should cash flow from the EIF dry up after Brexit.

Small and medium-sized businesses have been vocal about their concerns relating to Brexit, with many fearful of the impact of taxes and tariffs and restrictions on the free movement of people.

Although the UK currently leads Europe in the creation of so-called unicorns, it lags behind the US which accounts for 54 per cent of all unicorns globally. China accounts for 23 per cent, easily eclipsing the UK which is home to just 4 per cent.

Striving to shed more light on France’s startup community in a similar way, the French Minister for Digital Economy, Fleur Pellerin, recently announced the launch of “La French Tech”. La French Tech plans to put over €200 million into initiatives that support the development of the French startup ecosystem and crown them part of the official La French
Tech network. In other words, accelerators, incubators and the likes will need to meet certain criteria to be part of La French Tech. On top of that, an additional €15 million will go to promoting La French Tech on an international level.

La French Tech strives to consolidate the various pockets of innovation throughout France (it’s not just about Paris) through a single brand and network, and provide international visibility to the key components and players of the local ecosystem.

Independently of La French Tech, the French government has also announced plans to reveal an entrepreneur visa and ambitions to encourage corporate venturing in 2014 – but the important details of those plans are yet to be revealed.

While ecosystems in both France and the UK have had substantial support and involvement on behalf of the local governments, Germany’s government initiatives have been less visible on an international level. Berlin has gotten lots of publicity as a leading startup hub but this isn’t always as a result of government support or initiatives but rather the concentration of high-quality startups. Some of the most ambitious startup initiatives (like The Factory) have been almost completely void of government involvement, for better and worse.

McKinsey & Company published a study recently that placed Berlin behind both London and Paris, but outlined several different ways Berlin could rise to the top – including a one-stop shop to ease bureaucracy, especially for foreign entrepreneurs, and a stronger focus on encouraging investment. Like France, Berlin has also launched discussions of an attractive entrepreneur visa.

Even though London, Paris and Berlin are often crowned as Europe’s leading startup cities, other European governments have not shied away from supporting their ecosystems in similar ways.

As a result, a majority of Belgium’s startup initiatives (like Startups.be) come from the community rather than the government – and manage to unite the three regions as best as they can. However, the government did introduce the SPRL Starters business structure, whereby the minimum capital required to start the business is no more than €1.

Hungary’s capital, Budapest, has received a lot of attention for the rise of companies like Prezi, UStream, LogMeIn and a few more, recently
launched a manifesto to turn the city into the CEE region’s startup capital by 2020. Some 140 billion Hungarian forints (roughly €4.6 million) will fund the project known as Budapest Runway 2020, and the funds will be used primarily to finance pre-seed and seed-stage projects.

Similarly, Ireland (which was recently recognized by Forbes as the leading country to do business – ahead of the US and all other European countries) has also set out to support investment in early-stage companies. Under the Seed and Venture Capital Scheme the government has plans to directly invest €100 million into commercially-focused VC funds.

The Irish government has a number of other initiatives aimed at funding startups (through innovation vouchers, early stage funds, mentor grants and more). Still, there is room for improvement when encouraging angel investing, finds Eoghen Jennings (Director at HealthXL and Startupbootcamp Dublin): “This is the one area where the government should be copying the UK, by providing much more substantial fiscal incentives to stimulate angel investments in young companies. The existing tax shielding schemes for angel investors are no longer as beneficial as the EIS in the UK.”

In the Nordic region, the governments have become rather active in supporting their ecosystems as well. In Finland, the state-backed Tekes organization will triple the money angels and VCs put into startups through non-dilutive grants, or provide cheap loans tied to further funding rounds. The government has also put nearly €1 million into The Startup Foundation, which funds the Startup Sauna accelerator and the Slush tech conference.

Denmark also launched a program known as LaunchPad Denmark, though aimed at bringing foreign entrepreneurs to Danish soil and not that different from what Portugal is doing through Startup Lisboa.

As European governments strive to create more startup-friendly measures, it would be a good idea to encourage them to engage more with people from the community in a Tech City-type of way and to focus on encouraging funding for early-stage companies, à la UK or Ireland. I also would encourage them to adopt the approach of “what can we do to attract the best entrepreneurs to our country?” rather than competing with another European country or putting in measures that only aim to
keep their own entrepreneurs from leaving (cough, France, cough). And
it is also better to encourage the entire continent, UK included, to make
their startup visa the most advantageous in the world.

ICT startups are often seen as a key for transformation of the current
economy and society, but also as a major driver for new and innovative jobs
especially for the younger generation. The European Union has included
in the Digital Agenda for Europe the Start Europe project that aims to
strengthen the business environment for web and ICT entrepreneurs so
that their ideas and business can start and grow in the EU.

In Estonia, the work which was done in recent years to optimize
government organizations has become a key factor in the formation of a
high-quality ecosystem. According to a survey conducted by Compass in
2015, 67% of the founders of start-up companies in the country described
the work of the government as “more than satisfactory”. The average of
this estimate for Europe was at that time 22%. E-government, the transfer
of most bureaucratic procedures to online, e-citizenship, the opportunity
for foreigners to manage a trust company online - this is an incomplete list
of factors that increased the quality of the Estonian business environment.
Direct investment in startups by the government is quite modest: the
Estonian Development Fund allocated only 3 million Euros for these
purposes, and funding is based on parity participation with independent
investors. Today, the country is positioning itself as a launching pad for the
development of start-ups in the early stages, followed by the promotion of
their products in large European markets.

According to official figures, the venture capital market of Ukraine
is about $ 300 million, although there is a real demand for venture
financing twice as much now [4]. Among the largest venture capital
funds and companies operating in Ukraine are the following: Western
NIS Enterprise Fund, the US $ 150 million capital allocated by the US
Government to invest in the Ukrainian economy over the last ten years,
has funded 31 innovative enterprises; Ukrainian Growht Funds (UGF)
has invested about $ 55 million 75 Ukrainian companies; Ukraine’s
private equity fund also provided financial assistance to 31 enterprises
worth more than $ 22.5 million.

As a conclusion, we can propose the following ways of further
development of venture business in Ukraine:
• development of a national concept of venture business development;
• simplifying the venture financing procedure for SMEs;
• the introduction of tax incentives for investing in Seed companies;
• improvement of the venture business infrastructure and its information support;
• transition of the country to a radically innovative way of development using the entrepreneurial potential of youth.

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COMPARATIVE ANALYSIS OF BUSINESS CONDITIONS
IN EU COUNTRIES BY DOING BUSINESS RATING

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