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THE PROBLEMS OF ATTRACTING VENTURE CAPITAL IN RA

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Abstract: The investment environment formed in RA is still not favorable for attracting foreign venture capital. An effective state policy is needed, mainly aimed not at the creation of new venture funds, but at improving the depth of the Capital Market, the most vulnerable and at the same time the most important indicator group in the "Venture Capital and Private Equity Index". The article analyzes the risks of venture capital formation and based on it, recommendations are made in the direction of measures contributing to the improvement of the investment environment in RA.

Keywords: venture capital index, investment risks, innovation financing, facilitating entrepreneurial start-ups, state support, venture capital funding

JEL code: E22

Research objectives: to analyze the position of the Republic of Armenia in the "Venture Capital and Private Equity Index" and based on it to present recommendations for improving the attraction of venture capital in the country

Research novelty: The weak links of the sub-sections of the venture capital index of the Republic of Armenia were identified and based on this, recommendations were made regarding the attractiveness of venture capital financing.

Introduction

RA is improving its positions in the "Venture Capital and Private Equity Index" every year, but the investment environment of the republic is still not favorable for foreign venture capital. And as for the venture funds and angel investor clubs created in RA, the investments in these funds, although they are made with foreign capital, are predominantly owned by Armenian investors. The creation of venture funds can become a good prerequisite for attracting foreign funds, but the presence of the latter alone is perhaps not enough to make the country's investment environment favorable and attract large-scale foreign venture capital [1]. Here, an effective state policy is needed, aimed not at the creation of new venture funds, but at improving the depth of the most vulnerable and at the same time the most important indicator group of the index, that is, the depth of the capital market. As a way to improve the above indicators, it is possible to propose the application of tax benefits for companies that have implemented an IPO, support for

the creation of the Crowd Investing system, the introduction and legal regulation of internationally used investment tools in the startup ecosystem: convertible bonds and SAFEs, the creation of effective mechanisms for the protection of investors' interests, etc.

Research results

Along with the increase in the number of startup companies, a demand for venture capital is created, as a result of which, every year in RA, clubs of angel investors are created and venture funds are formed. In particular, in addition to the 2013 and in 2014 created "Granatus Ventures" (invested in 13 companies to date, average investment amount: 250,000-300,000 USD) and "Hive Ventures" funds (invested in 18 companies to date, average investment amount: 100,000 USD), in 2016. "Smart gate VISI" venture fund was also created, which invested in 5 more companies. Three angel investor clubs in 2018 were created, which plan to invest in companies at the most initial stage of development. 2019 The Science and Technology Foundation of Armenia has also created 2 venture funds with the aim of investing in science-based start-up companies.

Despite the increasing trends of venture capital in RA, it should be noted, that the investment capital of the above-mentioned funds does not exceed 10 million US dollars, which may be sufficient only for financing the seed stage of startups, and the next investment stages (series A, B , C+), Armenian startups have to turn to foreign venture funds for financing. Another no less important advantage

of attracting foreign capital, is the transfer of their experience, knowledge and connections to Armenia and their use by the startup ecosystem. And perhaps the most important prerequisite for attracting foreign venture capital is the attractiveness of the RA investment environment.

The country's attractiveness for venture capital is measured by the "Venture Capital and Private Equity" index, according to which RA ranked 90th among 125 countries [2].

Although the dynamics of the index is positive for RA, the indicators of RA regarding a number of components of the index are worrisome, in particular, it refers to indicators of economic activity and depth of the capital market, which are perhaps the most vulnerable aspects of RA. The latter is confirmed by the chart, in which the deviation between RA and Asian countries (in which RA is included) is the largest in terms of those indicators.

As a result of the separate observation of the index groups, it becomes obvious, that RA has an advantage in terms of taxation compared to the mentioned countries, in particular, ranks 39th in this indicator. This speaks of the RA's favorable tax environment, which is facilitated by the RA Law "On State Support of the Information Technology Sector", according to which startup companies are exempted from profit tax for 5 years, and pay income tax at the rate of 10%. The favorable tax environment is also facilitated by the fact that reporting is simplified and automated.

The next group of indicators, where RA has a comparative advantage, is the "Protection of Investors' Interests and Corporate Governance" group, in which RA ranks 49th.

Table 1. Sizes of individual indices of venture capital and private equity participation index by country

Countries	Economic activity	Capital market depth	Taxation	Investors' interests protection	Human capital & social environment	Entrepreneurial culture
Russia	88,1	65,1	97,9	57,2	35,2	69,9
Estonia	68,2	45	104	83,5	61,1	62,1
Kazakhstan	79,8	46,6	95,7	66,5	46,4	54,1
Georgia	61,2	42,6	104,4	72,5	53,3	50,4
Armenia	50,7	35,1	104,1	64,7	47,2	52,5
Belarus	74	11,1	98,9	46	51,2	53,1
Azerbaijan	63,3	6,9	105,3	70,3	41,4	55,2

However, in that group, the qualitative indicator of applicability of the law is low, with RA taking the 67th position. It should be noted, that the dynamics of this indicator is increasing and taking into account the positive expectations towards the new Government, further improvement of the indicator can be expected.

The "Entrepreneurial culture" group is the weakest part of the index of venture capital and private equity participation, according to which RA lags behind the most in terms of the number of articles

in scientific journals and the costs of conducting research (R&D) by enterprises.

Thus, according to Skimago rating, Armenian authors in 1996-2017. published 15,450 scientific articles in international periodicals, in which RA ranks 86th, lagging behind Georgia (84), Kazakhstan (76), Estonia (64) and Belarus (65). The rating of Armenia according to the number of references to the document is even lower, with RA occupying the 115th position. It should also be noted that a significant part of the references in the articles are provided by the researchers of the Yerevan Institute of Physics and in 2017 about 40 percent of the published articles were related to the field of physics and astronomy.

As for research expenses, it should be noted that around 68% of RA information and communication companies provide services to other companies and do not carry out their own research and product creation [3]. However, in 2016-2017 70% of the established companies stated that their activity is aimed at conducting research and creating new products. From the point of view of research expenses, the size of RA state expenses is even lower. In particular, in 2017 government spending on research was 0.2% of GDP, which is more than 10 times less than the average size of OECD countries, 2.4%. For comparison, let's note that this index is 2.79% in the USA, 4.23% in South Korea, and 4.25% in Israel.

RA occupies the lowest position, 112th, in terms of indicators of the economic activity group. In particular, in terms of the size of the economy (GDP) and unemployment, RA occupies the 114th and

113th positions, respectively. The latter is perhaps characteristic of all the small countries included in the index, including Georgia and Estonia. It is noteworthy that the other index included in the group, "Real GDP Expected Growth", ranks RA 69th, which speaks of positive expectations for the RA economy.

The weakest group of the index and at the same time with significant development potential is the "Depth of the Capital Market" group. The indicators of this group are of great importance for the attractiveness of the investment environment of any country. The presence of the capital market, particularly the market-centric capital market, is more than important for venture capital, because the stock market ensures the return of invested money and the realization of investments [4]. From the chart presented below, it is obvious that the financial system of RA has a banking concentration, although the stock market capitalization/GDP indicator has continuously increased during the considered period, and the banking system's loans/GDP indicator has shown a stable behavior.

The importance of the depth of the capital market (including the presence of a market-centric capital market) for the attraction of foreign venture capital is also indicated by the fact that this group has the largest specific weight in the Venture Capital and Private Equity Index. Within the group, the liquidity and size of the Stock Market, IPOs and public issue operations are most important, in terms of which RA itself occupies the lowest positions.

Table 2. The position of RA according to the indicators of the Capital market depth group

Indicator	Horizontal	Unit
Stock market liquidity and size	94	43
Volume of stock market turnover	98	44,7
IPOs and public issue transactions	78	6,7
The merger and acquisition market	89	14,5
Debt and credit market	46	82,6
Access to financial markets	69	51,4

Conclusion

Venture capital represents a certain volume of investments, when the investor invests in such new enterprises (startups) that are engaged in the development of new technologies, know-how and other innovative technologies. Such organizations are characterized by high risk, due to the use of new products in business, rapid and dynamic development of activities, as well as receiving super profits in case of successful implementation of new ideas in the market [7].

The interest in venture investments is growing not only among those, who are ready to invest their funds, but also among those who would like to receive it for the development of their business [8]. It is also necessary to mention the fact that there are certain prerequisites for the development of venture capital in Armenia, particularly in the field of information technologies there is a significant development potential. In addition, there are a significant number of inventions and innovations in Armenia, which,

however, remain on paper and do not come to life in the absence of funding.

In order to ensure the attractiveness of the country's investment environment and, in particular, to attract venture investments, in our opinion, the RA government should implement the following steps:

- ✓ implement structural changes in the economy, giving priority to the development of scientific branches and, in particular, the military industry,
- ✓ ensure progressive rates of economic growth in the country,
- ✓ to create guarantees to ensure the return of investment funds, in particular to create an insurance system for them.

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ՎԵՆՉՈՒՐԱՅԻՆ ԿԱՊԻՏԱԼԻ ՆԵՐԳՐԱՎՄԱՆ ԽՆԴԻՐՆԵՐԸ ՀՀ-ՈՒՄ

Վարուժան Մուրադյան

Հայաստանի պետական տնտեսագիտական համալսարան
տ.գ.թ., դոցենտ

Բանալի բառեր - վենչուրային կապիտալի ինդեքս, ներդրումային դիսկեր, ինովացիոն ֆինանսավորում, ձեռնարկատիրական ստարթափերի խթանում, պետական աջակցություն, վենչուրային կապիտալի ֆինանսավորում

ՀՀ-ն տարեցտարի բարելավում է իր դիրքերը «Վենչուրային կապիտալի և մասնավոր բաժնեմասնակցության ինդեքսում», սակայն հանրապետության ներդրումային միջավայրը դեռևս բարենպաստ չէ օտարերկրյա վենչուրային կապիտալի համար: Իսկ ինչ վերաբերում է ՀՀ-ում ստեղծվող վենչուրային ֆոնդերին և հրեշտակ ներդրողների ակումբներին, ապա այդ ֆոնդերում ներդրումները, չնայած օտարերկրյա կապիտալով են, բայց գերազանցապես պատկանում են հայազգի ներդրողներին: Վենչուրային ֆոնդերի ստեղծումը լավ նախադրյալ կարող է դառնալ օտարերկրյա ֆոնդերի ներգրավման համար, սակայն միայն վերջինիս առկայությունը, թերևս, բավարար չէ, երկրի ներդրումային միջավայրը բարենպաստ

դարձնելու և մեծածավալ օտարերկրյա վենչուրային կապիտալ ներգրավելու համար: Այստեղ անհրաժեշտ է պետական արդյունավետ քաղաքականություն ուղղված ոչ թե նոր վենչուրային ֆոնդերի ստեղծմանը, այլ ինդեքսի ամենախոցելի և միևնույն ժամանակ ամենակարևոր ցուցանիշների խմբի, այն է՝ Կապիտալի շուկայի խորության բարելավմանը: Որպես վերոնշյալ ցուցանիշների բարելավման ուղի կարելի է առաջարկել, հարկային արտոնությունների կիրառումը IPO իրականացրած ընկերությունների համար, CrowdInvesting համակարգի ստեղծմանն աջակցությունը, ստարտափ էկոհամակարգում միջազգայնորեն կիրառվող ներդրումային գործիքների՝ փոխարկելի պարտատոմսերի և SAFE-երի ներդնումը և իրավական կարգավորումը, ներդրողների շահերի պաշտպանության գործուն մեխանիզմների ստեղծումը և այլն:

Երկրի ներդրումային միջավայրի գրավչության ապահովման և մասնավորապես, վենչուրային ներդրումների ներգրավման համար ՀՀ կառավարությունը, մեր կարծիքով պետք է իրականացնի հետևյալ քայլերը՝

- ✓ տնտեսության մեջ իրականացնել կառուցվածքային փոփոխություններ, առաջնությունը տալով գիտատար ճյուղերի և մասնավորապես ռազմական արդյունաբերության զարգացմանը,
- ✓ երկրում ապահովել տնտեսական աճի առաջանցիկ տեմպեր,
- ✓ ներդրումային ֆոնդերի վերադարձի ապահովման համար ստեղծել երաշխիքներ, մասնավորապես ստեղծել դրանց գծով ապահովագրական համակարգ:

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