

3.8. ROLE OF THE STATE IN SUPPORT OF THE PROMISING AREA OF THE INNOVATIVE-INVESTMENT MODEL FOR DEVELOPMENT OF PROCESSING COMPANIES IN UKRAINE

The nature of the investment policy is determined by intensity of the government intervention into economic processes, degree of relation between such policy and other governmental institutions, including the tax, financial and credit, amortization, licensing and pricing policies, income and employment policies, policy for raising foreign investment, as well as the legal area and general administrative structure¹.

The investment policy should be developed with participation of all the related parties and should be institutionally bounded within the rule-based framework, which rests upon the high standards of governmental management and provides for the predictable, efficient and transparent procedures for investors.

The institutional foundations and investment activities consist of a set of fundamental rules and well-regulated set of institutions that establish rules for coordination of the investment activities of business entities².

Investments in processing companies means a placement of monetary, property and intellectual valuables in design and construction of the companies, procurement of equipment, technological update and update of products. Such investments are characterized by the following basic peculiarities:

- focus on forward-looking assignments as regards the growth of national wealth, formation of the export potential, creation of jobs;
- large share of construction works and equipment within investments;
- high research and innovation intensity based on the necessity to purchase or create intangible assets within the investment projects.

The global market on investment into the processing industry is characterized by a priority investment into re-industrialization and innovative processes³. The investment activity in most Ukrainian companies is limited to emergency and current repairs and import of particular units of equipment. For systemic analysis of the institutional environment of investment activities in the processing industry, the legal instruments in this area should be divided into the following groups:

- basic law on investment activity;
- law concerning foreign investment;
- law on incorporation of investment-focused companies;
- law concerning fiscal regulation of the investment activity;
- law governing financial support of investment processes;
- law concerning stimulation of the investment activity;
- legal instruments on the innovative investments;
- law concerning interrelation between the investment and privatization;
- law on management and arrangement of the investment activity;
- law concerning public private partnership and forms of international cooperation in the investment area.

Analysis of the current situation in regard to the governmental participation in support of the promising area of the innovative-investment model for development of processing companies in Ukraine enables identifying a number of problems⁴:

1. Weakness of the current infrastructure of support to venture enterprising, which should have contributed to emergence of the new and development of the existing small and medium-sized technological innovation companies capable of becoming attractive objects for direct investments:
 - it is weakly integrated into the current infrastructure of support to small enterprising;

¹ Udalykh O.O. Management of Investment Activity of Industrial Company, 292 p.

² Davis L., North D. Institutional Change and American Economic Growth. Cambridge, p. 6.

³ Badalyan L., Krivorotov V. Reindustrialization: Reasons and Price [e-resource]

⁴ Afendikova N.O. Innovative Development of Agricultural Production under Modern Conditions, p. 32-34.

- it does not cover a substantial part of infrastructural segments: HR, information, consulting;
- it is not enough for covering most of the venture business entities, especially innovative companies.

2. The Ukrainian venture industry still lacks presence of the domestic capital, which would be a vital factor for attractiveness of the Ukrainian economy for foreign investors.

3. Low liquidity of venture investments is largely stipulated by a poorly developed stock market.

4. Weakness of economic incentives for raising direct investments into the companies of the high-tech sector, providing an acceptable risk for venture investors.

5. The matters related to legal and regulatory governance of formation of funds and process of venture investments are solved at a very slack pace.

6. The challenge to support the process of creation and development of new innovative companies, being potential investees, remains almost unsolved.

7. The efforts to establish an enterprising culture, popular presentation and methodical support of venture investments as the type of investment activity, which is both new and promising for Ukraine, are evidently insufficient.

Thus, the state encounters a challenge to elaborate the efficient forms of participation in development of the venture industry, in terms of the current global experience and Ukrainian conditions.

As a result of a thorough analysis of the global experience of venture business, the following principles to be followed when implementing the governmental incentive arrangements for venture investments can be set forth:

1. Governmental arrangements should be aimed at elimination of irregularities of markets or lack of funds, being a consequence of the financial system's shortcomings, which prevent the capital to be provided to economically viable companies and projects.

2. While developing the financial arrangements, one should take into account the nature and extent of the investment privileges: whether they are forwarded to venture funds or directly to small companies, target stages of investment, risk factors, comparison with the private sector's rates of return, degree of competence of intermediaries and impact on private capital.

3. The arrangements to support venture investments should encourage investments into private sector and create a commercially active market. The governmental arrangements have to try to reinforce the venture capital's private sector. As long as the private markets get developed, the above programs should be wound up.

4. The private sector should be involved in management of the governmental support programs. Although the state must control implementation of the program, its participation in making the investment decisions should be reduced to minimum.

5. The procedure for a small company, investor or investment company to file the application for privileges must be simple and explicit.

6. The venture enterprisers, investors and companies should know about existence of the support programs. Information about availability of the venture capital should be included and used by various governmental programs.

7. The venture capital support programs should be estimated on a regular basis. The criterion of success of the created venture funds or small companies is the extent, to which they can operate on a commercial basis, i.e., make profit.

8. The venture industry is devoid of any specific problems, which have to be solved through adoption of the special law. The current problems in the general civil, tax and currency laws, impeding development of the venture industry in Ukraine should be solved by the state within the framework of the relevant branches of law and legal instruments that already exist.

In our opinion, the American model of venture business is the most suitable one for Ukraine. It is characterized by a high level of risk that distinguishes it from the more widespread business project supporting mechanisms, such as, e.g., investments into securities or bank loans. Three most

significant features of that kind relevant to the goals of development of such business in Ukraine can be distinguished¹:

1. The required funds can be assigned for a promising idea, without a secured coverage by property, savings or other assets of the enterpriser. If the project fails, the greatest extent that can be claimed by the investor is a share of the assets of such company in proportion to its interest in the registered authorized fund. The venture capital investor agrees to share the entire responsibility and financial risk together with the enterpriser. The necessity to obtain the loans of that kind often arises with the start-up or small enterprisers, inventors, scientists and engineers, who are trying to implement their new original and forward-looking developments on their own. Their way to a commercial bank is often closed due to the following reasons:

- many commercial projects become yielding only after 3-5 years, however in the above case they deteriorate the bank's balance sheet parameter;
- such projects are related with a dramatically high level of financial risk;
- banks will have to claim for pledge security or guarantees.

2. There is an active participation of investors in the project financing management at all the stages: from examination of the enterprisers' ideas and to provision of liquidity of the created company's shares.

3. The venture funds are ready to invest money into the research intensive developments even if there is a high degree of uncertainty. Whereas the greatest potential provision for profits is hidden particularly in the aforesaid area.

It is common knowledge that the venture capital investors make concessions to enterprisers through no altruistic considerations.

The investor's interest is precisely in gaining profit from its investments, which profit will be significantly higher than the one from placement of free financial assets on bank deposits or from investing them into governmental fixed income securities.

Investors are divided into the individual and institutional ones at the securities market. The institutional investors are the basic category at the stock market of the developed countries. The share and corporate investment funds are among the most active investors, moreover the investment activity is taken up by other financial mediators, in particular by commercial banks, pension funds and insurance companies. The conventional model of investment activity of institutional investors and financial mediators is shown in a descriptive form at Fig. 1.

The Law of Ukraine "On Governmental Regulation of the Securities Market in Ukraine" states that aim of the governmental regulation of the securities market is to secure the titles for the securities. That aim must be achieved through insurance of professional responsibility of the persons whose activities may cause damage to third parties. It will enable distribution of risks, reducing the pressure of risks on the investor.

Currently, no state can afford that trust in the securities market would be shaken both for foreign investors and for the country's population and that people, who have invested their savings in securities of their country or any other, would suddenly lose them as a result of some cataclysms or fraud. Formation of the conditions for a full-fledged stock market will ensure free circulation of shares in the secondary securities market, being the major indicator that makes it possible for us to determine the companies' efficiency.

One can identify, from the totality of economic activity entities, a set, the components of which serve as investment donors or investment acceptors. The above set forms the investment area, which, in relation to risks and methods to reduce the risks' adverse effects, is split into two subsets²:

- scientific and research activities, production, service industry, financial mediation, etc.: those, who perceive emergence of risks, in particular the financial ones, to be far from desirable and costs-intensive;

- risk consumer: those who assume third party's risks hoping to win much in future.

¹ Pysarenko T.V. Condition of Innovative Activity and Activity in the Technology Transfer Sphere in Ukraine for 2017: Analytical Note, 98 p.

² European Innovation Scoreboard 2017. [e-resource]

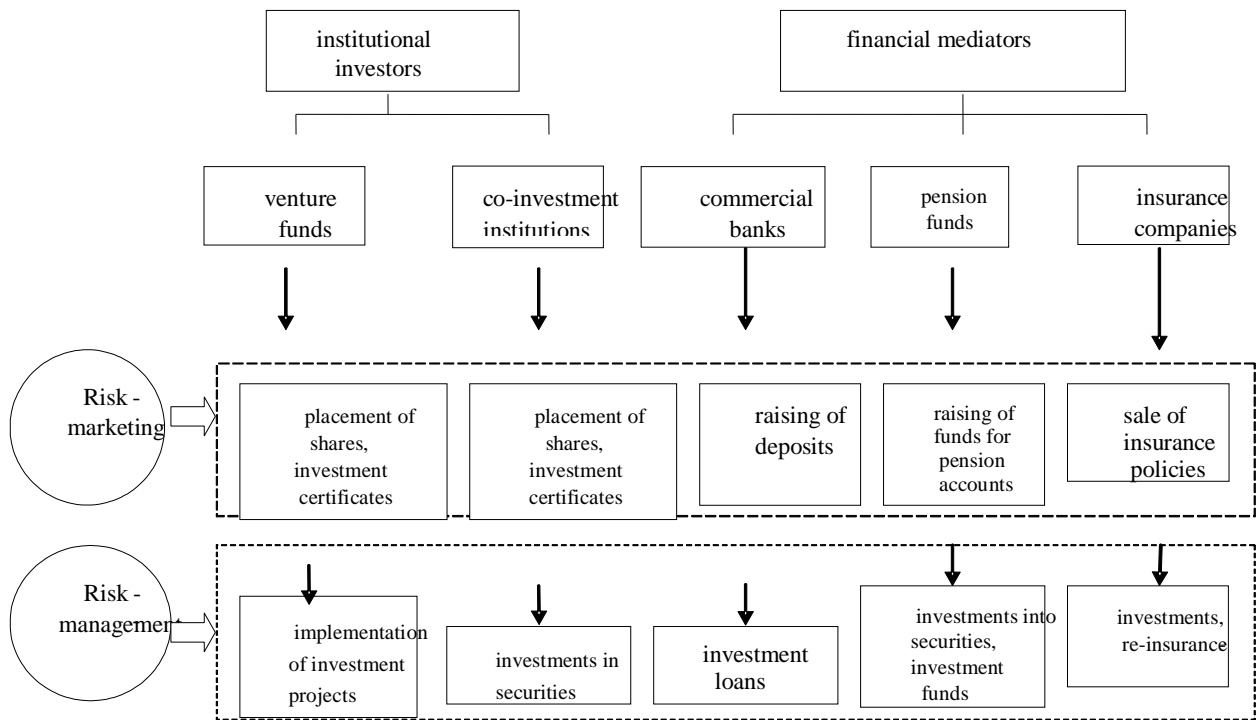


Fig. 1. Model (descriptive) of investment activity of institutional investors and financial mediators

In order to shape out the investment area on the basis of the findings of our research, we have developed a comprehensive management of the investment risk level; it can be considered as a system combining the Risk Marketing and Risk Management.

This system (Fig. 2) means a set of management principles of influence on the inter-related economic and organizational, social, legal, market components, human factor and information as regards the activity of the investment area entities. Such system has certain tasks and methods to solve them.

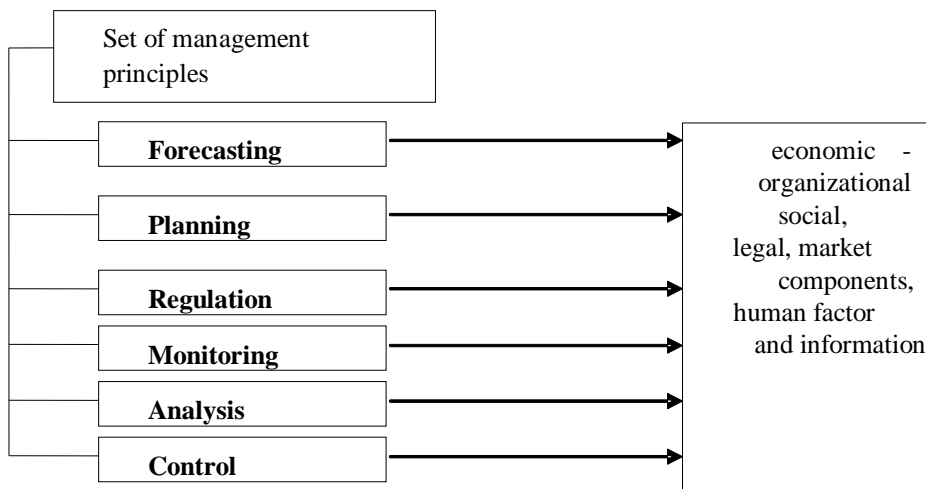


Fig. 2. System of comprehensive management of the investment risk level

Activity of the investment area's components will be successful, provided that the components are deployed as a single set. Use of some separate components of the set provides for no desirable results, as they are inter-related and reflect different areas of the investment activity.

Taking into account the fact that Ukraine is moving towards the investment model of development, presently a special attention should be paid to the governmental regulation of the investment process in Ukraine resulting in formation of certain pre-requisites¹:

- introduction of the relevant legal base, law compliance control;
- stimulation of development of the venture business and co-investment institutions;
- provision of the transparent, fair competition in production, service industry and banking sector, thereby precluding gain of excessive profits through use of the business-making extensive factors;
- maintenance of the unified accounting system instead of separate ones for the tax inspectorate, shareholders and for internal needs;
- training of the professionals, who will be capable of taking the justified risk;
- conduct of pension reform.

Major entities to implement the governmental policy in regard to the venture capital should include the National Commission on governmental regulation in the area of the financial services markets together with the National Securities and Stock Market Commission. Particular attention should be paid and the control should be rendered to the matters of patenting and guaranteeing the intellectual property rights, which, under the given conditions, become the driver and essential component of the investment area.

The driving force capable of bringing the domestic market closer to the global venture investment processes includes formation and implementation of a single government policy as for protection of investors, raise of investment capitals and technologies (know-how), development and functioning of the market for securities and their derivatives, free circulation of shares in the secondary securities market, promotion to adaptation of the national stock market in line with the international standards. Nowadays, the venture investors around the world perceive the idea of global investment more seriously than ever: they are interested in augmenting the global investing trend at the international market.

Analysis of the positive experience of the world's developed countries makes it possible for us to highlight the principles underlying the policy for stimulating innovations, venture investments: the focus is not so much on the macroeconomic performance of the project implementation, but rather on demonstration of another, more efficient and updated model of innovative growth and public and private partnership; substantial co-financing of projects by the state with project management remaining in the hands of business; decentralization of the governmental support and formation of the network of development institutions; preservation of the old innovative institutions with them built into the new system or gradually replaced with new institutions; formation of trust to new institutions through the managers' personal reputation; exercise of functions to support through business mediators; provision of services instead of funds; support of co-operation and mutual training.

Internationally, the basic factors contributing to development of the venture industry include: presence of the scientific and educational base, meaning availability of a strong research sector, developed scientific schools carrying out a continuous cycle of researches; maturity of the financial market, meaning the developed financial institutions and markets of the insurance and pension sectors, availability of the stock market; political and macroeconomic stability, steady economic growth; sustainable demand from the public and private sectors for researches and developments; availability of free and "long" money in the economy. According to the current situation, Ukraine possesses most of the above conditions, to this extent or another. The country continues to grow economically; some companies proceed with investing into new projects and can afford considerable development budgets.

With the aim of profitable implementation of the investments made into the venture companies, it is required for the new high-tech company to enter the stock market for selling the shares; and the owners of funds invested into the company are interested not so much in dividends,

¹ Shpykuliak O.G. Phasing of Innovative Process and Estimation of the Innovation Activity Efficiency, p. 109-116.

but rather in the capital gains. As usual, the venture capitalists, investing in venture companies, intend to increase their capital for at least 5-10 folds within 7 years. At the same time, as in the best case scenario the venture company will be able to enter the stock market for the first time only after 3-5 years after investment, the venture capitalist does not anticipate receiving the profit before that date. And during the above period the capital so invested in the company is not liquid, meanwhile the real value of profit becomes known only after the company enters the stock market, when the venture capital investors gain income through sale of their shareholding to the willing parties against the amount that significantly exceeds the funds initially invested into the company. Moreover, such "excess" can be quite impressive.

Thus, the acute goal of the state is to speed up the investment activity and to enhance the amount of investments. Improvement of the investment attractiveness is still among the priorities for the executive authorities. In order to improve the investment attractiveness, we think it necessary: to reduce the level of the governmental regulation of enterprising and to ensure the stability of the relevant law; to remove the ambiguity of interpretation of the regulatory legal instruments and to accomplish the judicial reform; to improve the regulatory base regarding the sale of proprietary rights; to accomplish the administrative reform; to ensure publicity and transparency in decision-making by the authorities and, finally, to reduce the level of bureaucracy and corruption; to introduce the corporate governance effective methods; to promote the development of capital markets, especially in the banking sector, stock and insurance markets; to reduce the tax burden; to ensure the stability of political environment; to intensify the actions for creating the state's positive image.

Subject to the aforesaid, the necessity to define strategic foundations, promising areas for the investment policy in Ukraine under conditions of sustainable development becomes evident. The major strategic foundations to form the national model of sustainable development are inclusive of: provision of the internal and external security; formation of the inter-industry structure of production, which should meet the global standards and needs of the state's economy; increase of the socio-environmental focus of industries; technical re-equipment of production based on introduction of the new scientific achievements, power and resource-saving technologies; widespread use of the renewable energy sources; solution of the problem of utilization of the waste generated in the course of economic and other activities; regulated increase of the production amount; formation of the rational structure of production; enhancement of the technical level and environmental safety. In order to form the attractive investment policy, to speed up the investment activity and to build up the innovative-investment model for development of the processing companies in Ukraine, a vital importance is given to the respective regulatory and legal base and creation of the legal area in Ukraine consistent with the market economy.

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