

The Importance of Venture Capital Funds in the Process of Financing the Economy

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Վենչուրային ֆոնդերի կարևորությունը տնտեսության ֆինանսավորման գործընթացում

Գևորգյան Գայանե Վ.

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Ամփոփագիր. Մենք ապրում ենք թվային վերափոխման դարաշրջանում, որտեղ տեղեկատվական տեխնոլոգիաները դարձել են մեր կյանքի բոլոր ոլորտների անբաժանելի մասը: Օր օրի ստեղծվում են նոր տեխնոլոգիական և ինովացիոն ընկերություններ, որոնց համար որպես ֆինանսավորման կարևորագույն աղբյուր հանդես են գալիս վենչուրային ֆոնդերը: Վենչուրային կապիտալը՝ որպես մասնավոր բիզնեսի ֆինանսավորման այլընտրանքային աղբյուր, սկզբնավորվել է Ամերիկային Միացյալ Նահանգներում անցյալ դարի 50-ական թվականների կեսերից: Վենչուրային ներդրողները, որպես կանոն, ներդրումներ կատարելով փոքր և միջին մասնավոր ձեռնարկություններում առանց որևէ գրավի երաշխիքի, ստանձնում են բավականին բարձր ռիսկ: Սակայն, մյուս կողմից, ներդրումները հիմնականում ուղղվելով դեպի ինովացիոն բնույթի ծրագրերը, վենչուրային ներդրողներն ակնկալում են նաև բավականաչափ բարձր եկամուտներ: Ըստ էության, վենչուրային կապիտալը կարելի է բնութագրել որպես բարձր եկամտի ստացման ակնկալիքով կատարվող բարձր ռիսկային ներդրում: Համաշխարհային շուկայում տարեցտարի աճում են վենչուրային ներդրումների ծավալները, որոնց մեծ մասը բնականաբար ուղղվում է դեպի տեխնոլոգիական և նորարարական գաղափարների ֆինանսավորմանը:

Հայաստանում, սակայն, վենչուրային ներդրումները զարգացած չեն և հայկական ստարտափները հիմնականում ֆինանսավորում են փնտրում արտերկրում: Վենչուրային ֆոնդերի ձևավորումն ու զարգացումը կարևոր նշանակություն ունի Հայաստանում թե՛ տնտեսության ֆինանսավորման և թե՛ կապիտալի, մասնավորապես՝ բաժնետոմսերի շուկայի հետագա զարգացման տեսանկյունից:

Հանգուցաբառեր՝ ֆինանսավորում, ստարտափ, վենչուրային կապիտալ, վենչուրային ֆոնդ, ներդրում, տեխնոլոգիական ընկերություններ, ծրագրավորում, բիզնես հրեշտակներ, ինովացիոն ընկերություններ

Значение венчурных фондов в процессе финансирования экономики

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Аннотация: В настоящее время мы переживаем эпоху, характеризующуюся всепроникающим влиянием цифровой трансформации, когда информационные технологии стали важным компонентом во всех аспектах нашей жизни. Каждый день появляются новые технологические и инновационные компании, которые в значительной степени полагаются на венчурные фонды как на важнейший источник финансирования. Возникнув в середине 1950-х годов в Соединенных Штатах, венчурный капитал стал альтернативным средством финансирования частного бизнеса. Венчурные капиталисты охотно берут на себя значительные риски, инвестируя в малые и средние частные предприятия без какого-либо материального залога. Тем не менее, эти венчурные инвесторы также ожидают значительных доходов, направляя свои инвестиции в основном на инновационные проекты. По сути, венчурный капитал можно определить как высокорисковую инвестиционную стратегию, влекущую за собой ожидание значительных доходов.

Мировой рынок венчурных инвестиций продолжает ежегодно расширяться, при этом существенная часть, естественно, направляется на финансирование технологических и инновационных концепций. И наоборот, в Армении венчурные инвестиции остаются относительно слабо развитыми, что вынуждает армянские стартапы в основном искать возможности финансирования за границей. Создание и развитие венчурных фондов имеет

большое значение в Армении не только с точки зрения поддержки экономики за счет финансирования, но и с точки зрения дальнейшего развития рынков капитала, особенно фондового рынка.

Ключевые слова: финансирование, стартап, венчурный капитал, венчурный фонд, инвестиции, технологические компании, программирование, бизнес-ангелы, инновационные компании

Article. Venture financing, also known as venture capital financing, refers to the process of providing funding to startups and early-stage companies with high growth potential. It is a form of equity financing where investors, typically venture capital firms or angel investors, invest capital in exchange for an ownership stake in the company.

Even though the start-up industry today cannot be fathomed without a venture capital industry, the roots of the modern-day venture capitalism dates back to many decades ago. In the past, entrepreneurs had to look towards debt financing for their companies, however, the debt lenders volunteered to finance on the basis of strict conditions as they needed the safety and security of being paid back in time by the entrepreneurs. Equity-based investment was seen as being inherently risky in terms of return on investment on the capital invested into the start-up. By the start of the 20th century, investors were only looking to invest in companies with sizeable tangible asset base or retail businesses due to their recurring revenue stream which made them look valuable. Ventures which focused on technological advancement did not feature as an attractive company to invest in while banks were not looking to businesses whose future was uncertain and the business model was unknown. Public equity-based financing was also not an option as such businesses could not be valued based on no or little revenue stream in the early stages of development. This gap had to be filled and was carried out by venture capitalists who were wealthy individuals running merchant banks and were willing to invest their riches [1, p. 19]. These people are called Business Angels. Private venture investors, commonly known as business angels specialize in investing in early-stage companies with high growth potential, which may struggle to secure sufficient funds from traditional institutional investors. Business angels often have a background as successful entrepreneurs themselves, and they bring not only financial support but also their expertise and experience to the table. This provides the young company not just with capital but also with valuable guidance. Typically, business angels invest by obtaining equity or convertible bonds in the company and maintain

involvement until the business reaches a certain level of maturity, at which point they may be succeeded by larger venture investors or venture capital funds [2, p. 155].

The formal recognition of venture capital as an asset class was seen in the 1970s with the start of the personal computing industry. However, there were venture capital funds that have been founded even earlier. Here are some of the first notable venture capital funds:

- American Research and Development Corporation (ARDC): Established in 1946, ARDC is often considered the first formal venture capital firm. It was founded by Georges Doriot, a Harvard Business School professor, and it provided funding to early-stage companies, including Digital Equipment Corporation (DEC), one of its successful investments.

- J.H. Whitney & Company: Founded in 1946 by John Hay Whitney, J.H. Whitney & Company is recognized as one of the oldest venture capital firms in the United States. It made investments in various industries, including aviation, publishing, and television. J.H. Whitney & Company played a crucial role in the early development of the venture capital industry.

- Kleiner Perkins: Established in 1972 by Eugene Kleiner and Tom Perkins, Kleiner Perkins is a renowned venture capital firm that became prominent during the technology boom in Silicon Valley. It made early investments in successful companies like Genentech, Amazon, and Google, contributing significantly to their growth and success.

- Sequoia Capital: Founded in 1972, Sequoia Capital is another well-known venture capital firm with a strong presence in Silicon Valley. It has made notable investments in companies such as Apple, Oracle, Google, and LinkedIn, among others. Sequoia Capital has been instrumental in supporting the growth of numerous technology startups.

Nowadays, our whole life depends on technology and startups are becoming a common part of our industry, so the venture capital funds are being an essential part of capital markets and develop very fast.

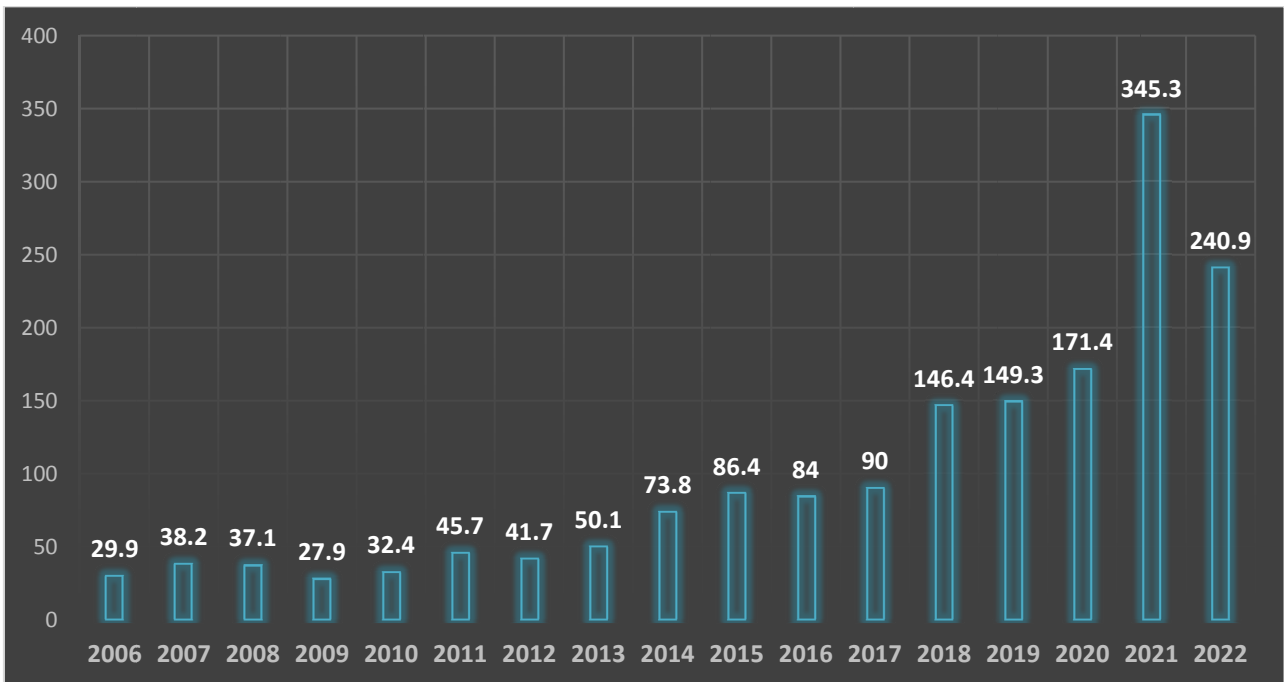


Figure 1 Value of venture capital investment in the United States from 2006 to 2022 (in billion U.S. dollars [7])

As you may see from the Figure 1, venture capital investment in United States has a growing trend. In the period of fifteen years it grew approximately 11.5 times. 2021 set a new record for venture capital investments in the United States. In 2021, the value of venture capital investments in the U.S. amounted to approximately 345 billion U.S. dollars, nearly twice as much as the previous year. Although the companies lack the current earning power, they have above average growth potential, which makes them an attractive investment

opportunity. In 2022, the value of venture capital invested was nearly 241 billion U.S. dollars. The fall in 2022 is related with global financial and economic situation, when investors waiting for a global financial recession escape from making risky investments.

To understand the structure of venture financing by countries, let's have a look at Figure 2, where Total value of venture capital investments per capita in selected countries worldwide as of the end of 2021 is presented.

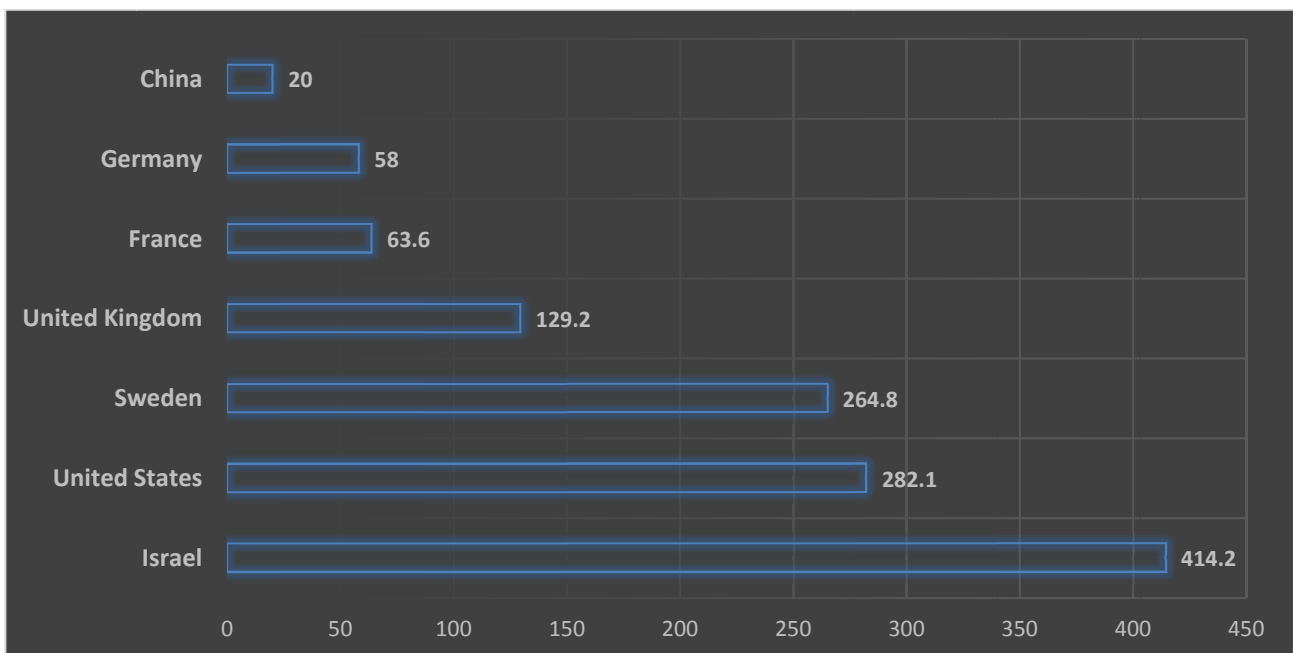


Figure 2 Total value of venture capital investments per capita in selected countries worldwide as of the end of 2021 [8]

During 2021, global venture capital investments reached over 345 billion U.S dollars with the

United States accounting for more than half of all venture capital investments made worldwide. In

terms of per capita spend, of all major venture capital investment markets it was Israel that came out on top with over 414 U.S dollars per capita in

venture capital investments per capita. United states come the second with 282.1 U. S dollars per capita.

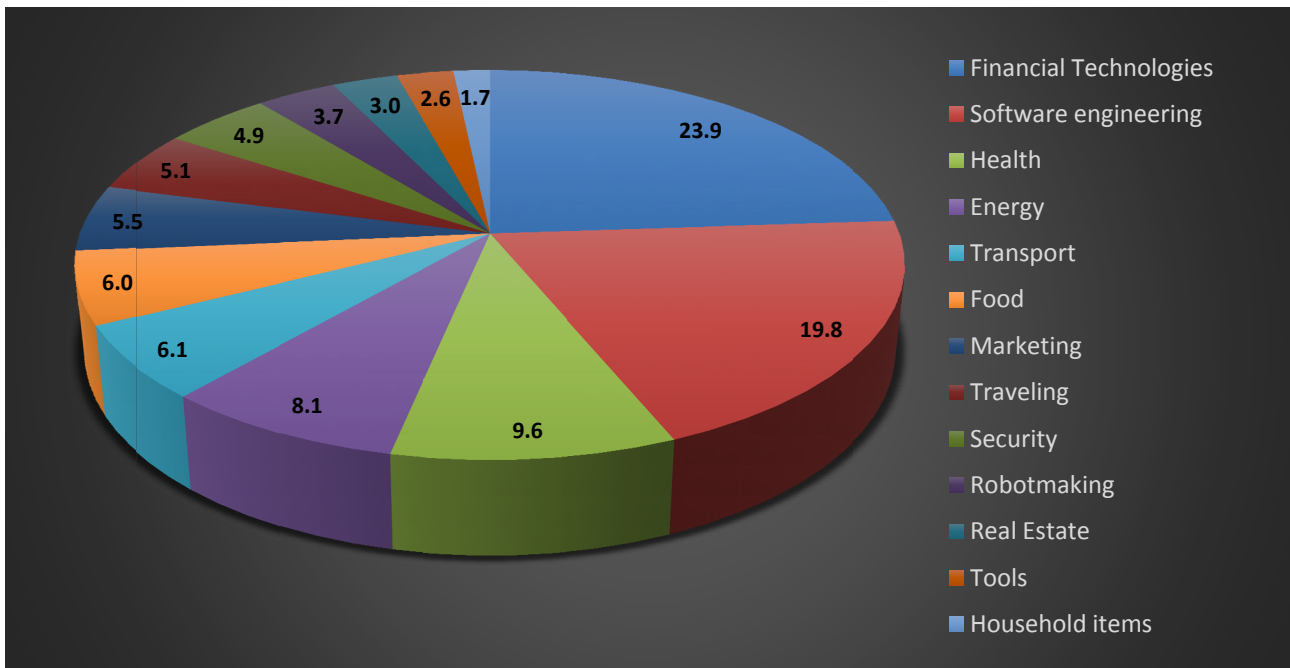


Figure 3 Value of venture capital investment by industry in 2021 [9]

And finally, the important part of analyzing venture capital investment is the examining venture capital investments by industry. As we can see from Figure 3, the huge part of venture capital is flows to high tech spheres. Approximately 24 percent of venture capital flew to financial technologies industry and more than 19 percent of capital flew to software engineering in 2021.

Now lets the discuss the opportunities of developing venture funds in Armenia. The first step in the creation of venture funds in Armenia was made back in 2006 when the RA Law "On State Support for Innovative Activities" was adopted, where venture funds were considered one of the primary sources of financing innovative activities and creation of a favorable legal framework for the development of venture funds and innovative activities was seen as one of the main directions of state support for innovative activities [3, Articles 7 and 10].

In 2012, the RA draft law "On Venture Funds" was presented to the National Assembly for discussion, but it was not adopted. In fact, the draft set a number of restrictions for the activities of venture funds, in particular, it set a minimum amount of statutory capital of 500 million AMD, while there are no such restrictions in the RA Law "On Investment Funds". In addition, the maximum number of fund participants was also defined, and it was forbidden to create funds as open joint-stock companies [4, Articles 4 and 8].

Currently, the RA Law "On Investment Funds" is considered the only law regulating the activities of venture funds. According to that law, venture funds can be established as a contractual fund, a joint-stock company with fixed or variable capital, or a trust-based partnership. A venture fund is considered a fund of qualified investors, and at least 50 percent of the fund's assets must be invested in securities of newly established or early-stage organizations. The purpose of investing should be the further development of a company and making it public, by listing its stocks in the regulated market [5, Articles 11 and 47].

The first venture fund in the Republic of Armenia, known as "Granatus Venture Fund I," was established in 2013 through a collaborative investment effort between the international company "Granatus Ventures" and the Armenian government. In the same year, the Armenian government made a decision to participate in the fund's authorized capital, resulting in the acquisition of 3,000 class A redeemable preferred shares, 3,000 class B convertible preferred shares, and 3,000 class C preferred shares. As per the decision, the total investment made by the government in the authorized capital of the privately held company "Granatus Venture Fund I" must not exceed AMD 3,300,000 [6].

The fund invest in exceptional teams that have an execution-focused approach, dedicated to building scalable products with the ambition to

become industry leaders. They focus on IP-centric scalable solutions with high technology risk and low market risk, for lasting sustainable competitive advantage.

One of the companies that received financing from "Granatus Venture Fund I" is MenuGroup, the parent company of the famous Menu.am brand in Armenia, which received 720,000 USD in venture financing for the creation of Menu.ge and Menu.by brands in Georgia and Belarus, respectively. Another well-known company that received venture funding is GGtaxi, which is considered the fastest-growing Armenian startup. This company received \$200,000 funding.

There are also other newly created venture funds in Armenia, that could lead to further development of venture financing in Armenia.

Conclusion: We live in a world where technologies grow every moment and new technology companies are created every day. The technology is a part of our live so it is essential to focus on development of new companies and in the base of them develop the country's economy and capital markets. The establishment of government-supported venture funds holds significant importance for financing newly established innovative companies. To provide this support, the creation of a fund comprising venture funds is crucial. The capital for this fund would be entirely sourced from the state budget, and the fund's resources would be fully invested in shares of other local venture funds. State participation in venture capital formation can serve as a key driver for attracting private investors to venture funds.

The development of venture financing relies on the presence of a well-established securities market, particularly for shares, which facilitates the exit strategy for venture investors. To foster the growth of the stock market in Armenia and incentivize companies to go public, we propose implementing low tax rates for companies listed on the stock

exchange. Furthermore, the frequency of share transactions involving a particular company would determine the progressively lower tax rate applicable to that company. Although there might initially be artificial transactions aimed at taking advantage of tax benefits, over time, this approach would foster a culture of stock investment and contribute to the development of the stock market in the Republic of Armenia.

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