



Scientific Center of Innovative Researches OÜ

**ECONOMICS, FINANCE AND  
MANAGEMENT  
REVIEW  
(EFMR)**

**Issue 4 (8)**

**2021**

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## CHAPTER 2

# DEVELOPMENT OF FINANCE, ACCOUNTING AND AUDITING

## PRACTICAL ASPECTS OF IMPLEMENTATION OF VENTURE FINANCING TOOLS FOR INNOVATIVE INDUSTRY DEVELOPMENT

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**Citation:**

Kyrychenko, O. (2021). Practical aspects of implementation of venture financing tools for innovative industry development. *Economics, Finance and Management Review*, (4), 35–41. <https://doi.org/10.36690/2674-5208-2021-4-35>

Received: October 26, 2021  
Approved: December 24, 2021  
Published: December 30, 2021



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**Abstract.** The article discusses practical aspects of the introduction of venture financing tools for the innovative development of industry. It was found that the introduction of a venture funding mechanism in the country in order to finance innovation activities, innovative development of industry requires the use of a set of tools for state regulation of venture investment: institutional regulatory and legal regulation of venture activities, organizational support for venture activities and state stimulation of venture financing development. The main groups of venture financing tools for innovative industry development have been systematized. It is determined that the first group of instruments are the instruments of institutional legal regulation of venture activities. The second group of instruments of state regulation of venture activity is organizational support tools and the third group of instruments is a group of tools aimed at activating and accelerating the introduction of venture investment through the introduction of financial incentives for venture investment. It is determined that an important tool for state regulation of innovations of industrial enterprises is the improvement of tax, customs and depreciation policy. The article proved that the introduction of venture financing in investment support for the implementation of innovative projects for the modernization and development of industry in Ukraine requires the use of modern effective tools for state regulation of venture investment that would provide the possibility of practical implementation of the institutional organizational mechanism of state regulation of venture investment in innovative industry development.

**Keywords:** investments, venture capital investments, state regulation of venture investment, innovation activities

**JEL Classification:** E22; G18; L59; O32

**Formulas:** 0; **fig.:** 0; **tabl.:** 0; **bibl.:** 12

**Introduction.** The current state of industry development and the need to implement the processes of its modernization, renewal with the introduction of new technologies and innovations requires significant investment resources, which are not enough in Ukraine today. Innovation is aimed at the development of industry requires investment of long-term investments and has the need for early investment, has high risks and considerable uncertainty of results. The need to invest in research, scientific and research design work, intellectual results requires a new effective state regulation of this activity, development and application of mechanisms of state regulation. The main focus of venture capital is to finance enterprises that carry out high-risk innovations. Venture capital is highly risky capital invested in new enterprises with high potential for rapid growth, development or implementation of innovation. The main purpose of venture financing is to obtain a high rate of profit. First of all, it

concerns high-tech companies with new products, active implementation of innovative production processes, innovative approaches to doing business. The introduction of venture financing of innovation activities in Ukraine, investment support for the innovative development of industry requires the creation of a venture funding mechanism, since this mechanism is an important economic tool for the introduction of innovations, the implementation of effective industrial changes.

Venture financing has significant prospects and advantages, the result of such investment is high volumes of profit, its further growth, growth of the value of tangible and intangible assets, brands of companies. Industrial enterprises implementing new technologies are entering market leaders through the introduction of radical innovations. Revolutionary innovations have an impact on further technical technological development of the market of products and services. With venture financing, enterprises have the capabilities and resources to ensure dynamic development and significant advantages.

**Literature review.** The issues of practical aspects of the introduction of venture financing tools for innovative industry development, the use of venture financing in investment support for the innovative development of industry and venture finance tools were studied in the works of scientists.

According to the research of A. Handrail, venture capital is defined as a system of relations between venture capital entrepreneurs, which ensures the storage of free funds of depositors and their further direction [3, p. 128]. According to O. Kuzmin, venture capital is understood as long-term direct investments that are of a share character and are invested by investors for a long period in the development of newly created innovative enterprises [2, p. 128]. According to O. Dzhusov's research, the main direction for which venture capital is directed is financing enterprises oriented to create and implement innovations [3, p. 96]. According to V. Medinsky's research, the development of venture business requires the creation of a special credit and financial institution [4, p.72]. In T. Kolinescu's research, the field of interests of venture funds is distributed, part of the funds focuses on investing in young companies, part of the funds specializes in investing in mature companies that have long and steadily functioned in the market [5, p. 52]. According to O. Stavitsky, venture funds prefer to invest in firms whose shares are not freely sold on the stock market, but are fully distributed among shareholders-legal entities and individuals [6, p. 29]. According to V. Yukhimenko, an important participant in the venture activity process is an investor who can be a legal entity or an individual and takes a share in the capital of a venture capital company through the acquisition of its shares [7, p. 29].

According to T. Vasilyeva, venture capital enterprises, investors and financial intermediaries are the subjects of venture relations [8, p. 218]. According to the general definition of J. Sergienko, venture financing is a hybrid form of providing innovative enterprises with investments that combines the most effective functions in the activities of capital markets and banks [9, p. 116].

As noted in the works of A. Antonyuk, the period for which investments are invested in the vast majority lasts from 3 to 10 years, while from 3 to 5 years goes to the development of investments and the creation of a product and another 3 to 5 years

goes to make a profit on the invested capital [10, p. 51]. As M. Pereverzeva notes, investors are not involved in the operational activities of the innovative company [11, p. 26]. According to E. Rusavina's generalization, venture investments are a modern effective mechanism of investment activity that makes it possible to solve a wide range of tasks of investment support for the creation and implementation of innovations, the development of innovative enterprises from the implementation of fundamental and applied research to the creation of new and implementation of products and processes [12, p. 106].

**Aims.** The purpose of the article is to study the practical aspects of the introduction of venture financing tools for the innovative development of industry. The main objectives of the study are the study of venture finance tools; systematization and classification of these tools; studying the feasibility of their application in venture financing of innovative projects of industrial development.

**Methods.** In order to substantiate the conceptual principles and develop practical aspects of the introduction of venture financing tools for innovative industry development, a logical dialectical approach and methods of scientific cognition were applied: observation, comparison, abstraction. In order to research and systematize venture financing tools for innovative projects, a program-specific targeted approach has been applied. Systemic and comprehensive approaches have been applied to form a mechanism for investment support for innovative development.

**Results.** Implementation of the institutional organizational mechanism of state regulation of venture investment in the innovative sphere with the introduction of new technologies is carried out using a set of tools for institutional, normative legal regulation of venture activities; organizational support for venture activities; and instruments of state stimulation of venture financing development.

The main aspect of the formation of the institutional, organizational mechanism of state regulation of venture investment of domestic industry is the formation of the necessary institutional and regulatory legal basis for venture financing, organizational support for venture activities and state stimulation of venture finance development, attraction of investment resources and implementation of innovative changes. Institutional regulation is a process of general influence of state regulation institutions, self-regulation institutions and public control institutions. Institutional and normative legal regulation of venture activities is aimed at creating institutional, regulatory frameworks on which venture activity will be formed and regulated in the future, that is, the formation of a regulatory legal framework necessary for the real launch and effective implementation of venture activities in the country.

The formation of such a field is carried out with the improvement of legislation on venture financing. The tools that need to be applied for this are the development of the concept of development of venture financing of the country's industry and the formation and implementation of a unified state policy for the protection of venture investors, attraction and oculation of venture investments; development of the securities market, market turnover of shares; adapting the national stock market to international standards.

The primary task is to create and adopt a regulatory framework for regulation, stimulate the implementation of venture activities, since until now there is no definition of the essence, basic functions, principles of venture companies and venture funds in the regulatory acts of the country.

An important tool in this direction is the change of civil legislation on the protection of investors' property rights in venture projects. State regulation and definition also require the improvement of legislation on the protection of intellectual property in the field of creation and implementation of innovative developments.

The implementation of the mechanism of venture financing for the development of the country's industry requires organizational support for the formation and implementation of venture activities, which will include a set of tools aimed at direct organization and ensuring the functioning of market and state institutions, as well as venture investment infrastructure in the country. Among the instruments of organizational support it is necessary to note the need to create information bases of innovative enterprises and the creation of the Unified State Bank of innovative projects for the development of industry.

Industrial enterprises will be able to use this base for the purpose of implementation, within their industries, certain innovative developments. This will combine developers, integrators and enterprises that implement, commercialize innovations and enable the rapid and effective commercialization of innovative developments, ensured a significant spread of innovative developments among industrial enterprises within individual industries and at the inter-sectoral level. Important, in terms of venture development in the country, has the presence of specialists managers who can organize, plan and carry out venture activities in venture finance organizations.

Therefore, an important tool of state regulation in this area is the placement of state order to universities for the training of managers of venture activities. The effective functioning of the venture financing mechanism requires the creation and development of venture investment infrastructure, the opening of institutes of professional, scientific technical expertise of investment innovative projects, insurance of investments in innovation activities, companies for information analytical services of the innovation market. It is necessary to state regulation and support the development of the infrastructure of venture investments: state and non-state venture funds, venture capital companies, firms for consulting information and analytical support of venture activities. It is necessary to create expert councils and a system of centers for venture entrepreneurship, this will allow attracting significant amounts of necessary venture investments to finance innovative projects of industrial development. The spread of venture funding is associated with the development of innovation infrastructure, so the development of innovative infrastructure is needed: technoparks, technopolises, business incubators, technology transfer centers. Implementation of state regulation of venture activities requires institutional basis and regulatory legal support and the formation of effective incentives for venture investments at all levels. Starting from the formation of venture capital, accumulation of resources, development of innovation activity. In this aspect, economic methods,

their tools, which include tax incentives for the implementation of innovation activities, with the use of such tools as: granting tax benefits to venture funds investing in innovative investment projects aimed at the development of industry, development and application of new technologies are of great importance; introduction of tax holidays for small and medium-sized businesses that carry out innovative activities and participate in venture activities; liberalization of public policy in the field of venture financing.

An important direction is the introduction of financial incentives for investing in venture funds of small and medium-sized enterprises and private investors. In this direction, it is necessary to provide state guarantees on loans to venture funds, which will reduce venture risks, will help attract significant amounts of investments. According to the experience of leading developed countries, it is necessary to develop and implement mechanisms of state insurance for lending to innovative projects.

The directions of state stimulation of venture activity development and venture financing in industry are improvement of state tax, customs, credit and depreciation policy. In terms of improving tax policy, the tools of state incentives are to reduce income tax rates from venture activities and introduce tax breaks for enterprises during the implementation of innovative venture finance projects. In the direction of improving the customs policy, the necessary tools of state regulation can be a reduction in import duties on technological equipment, a reduction in taxes on the import of modern equipment. Improvement of the state credit policy of venture financing should be carried out using the following tools: partial compensation of interest on loans for the purchase of new equipment, equipment for technical technological upgrades, modernization of industry.

In general, the introduction of venture financing in Ukraine in the investment provision of innovative industry development requires the formation and implementation of a mechanism for such financing, since this mechanism is a fundamental economic tool that is effectively used by economically developed countries to introduce innovations and implement effective industrial changes. The essence of this mechanism is the collection of financial resources, the selection of innovative projects for further financing, the direction of venture investment placement and control over the timeliness of the return of invested investments.

However, the introduction of venture financing mechanisms for innovative projects aimed at the development of industry in the context of the transition to new technologies has certain differences from the general mechanism of venture financing. Venture financing of industry requires the creation and implementation of new technologies for industrial use, radically new technologies that have a long payback period, are tangible and intangible assets of enterprises. Leading innovations put the production capacities of the industrial complex of the country to a new technological level and are of national importance. Important elements of the venture funding mechanism are the formation and application of tools to stimulate and regulate such activities. The introduction of venture financing of innovation activities in the development of industry in Ukraine will require the formation and implementation of an institutional organizational mechanism and its tools.

**Discussion.** The introduction of a venture funding mechanism in the country in order to finance innovation activities, innovative development of industry requires the use of a set of tools for state regulation of venture investment, namely: institutional regulatory legal regulation of venture activities, organizational support for venture activities and state stimulation of venture financing development.

**Conclusion.** Summarizing the research, it should be noted that the instruments of the institutional organizational mechanism of state regulation of venture investments in the innovative development of industry generalize can be divided and classified into three main groups.

The first group is a tool for institutional legal regulation of venture activities. Such tools are the development of the Concept for the development of venture financing of the country's industry; formation and implementation of a unified state policy for the protection of venture investors attracting and oculating venture investments; development of the securities market; adaptation of the national stock market to international standards; creation and adoption of a regulatory framework for regulating and stimulating venture activities; improvement of intellectual property protection legislation; development of local organizations and opening of regional cents of venture activity.

The second important group of instruments of state regulation of venture activity are organizational support tools, which include the formation of information bases of enterprises with innovative activities; formation of innovative projects bank; information support for information companies to form public opinion, the need to participate in joint investment; placing a state order for the training of specialists in the organization of venture activities; development of venture investment infrastructure and development of innovative infrastructure.

The third group of instruments of state regulation and stimulation of venture financing development is a group of instruments aimed at activating and accelerating the introduction of venture capital investments through the introduction of financial incentives for investing in venture funds: providing state guarantees on loans to venture funds; state insurance of loans provided for the implementation of innovative projects; improvement of tax policy: granting tax benefits to venture funds; introduction of tax holidays for small businesses engaged in innovative, venture activities. Important tools are the improvement of customs policy: reducing taxes on high-tech equipment and improving credit policy: partial compensation on loans for the purchase of new equipment and technologies. An important tool for state regulation of innovations of industrial enterprises is the improvement of depreciation policy and revision of the period of normative use of equipment.

It should be noted that the use of instruments of state regulation of venture investment, which differ in combination and consistency and include tools for institutional, regulatory and legal regulation of investment support for innovative development; organizational support and state incentives for the development of venture financing, and as a result, create the prerequisites for the development of venture investment, the formation of its regulatory legal framework to protect the interests of all investment participants and the conditions for the constant flow of

investments in the process of investment support for innovative development of industry.

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