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VENTURE CAPITAL FUNDING IN BELARUS: PROSPECTS, OBSTACLES, SOLUTIONS

It is now generally recognized that innovations have become one of the most characteristic features of market economy. However, innovative projects are associated with high costs and a high level of risk, that is why venture capital financing, which is defined as risk-equity investment in those projects and start-ups that have true potential to develop, is of paramount importance for their launching. According to Belarusian Research supported by the U.S. Agency for International Development (USAID), start-ups with foreign investment won more successful rounds than start-ups with Belarusian investors, every third of the former ones having raised more than \$500 thousand [1].

High priority is normally given to potential investors' considering the issues of legislation, terms of a deal, a sphere of interest of a start-up (company), professionalism of its founder(s) and coherence of its team to list a few, as this awareness constitutes a starting point of decision-making on investments into promising innovative companies. The purpose of this paper is to analyse the Belarusian venture ecosystem, identify challenges encountered by Belarusian VC funding and suggest solutions to some of the problems. Belarus has a potential to become a noteworthy start-up hub, and that is why special emphasis is placed on monitoring its venture market.

In the course of the Belarusian venture ecosystem analysis, it has been established that such VC funds as *RBF Ventures*, *VP Capital*, *Bulba Ventures* and other ones operate in Belarus and have already invested in Belarusian and Russian projects and companies mainly in the field of AI, FinTech and Blockchain. On the market the network of 'business angels' *Angels Band* covers 90 venture capitalists and has been engaged in venture business since April 2018. In March 2019 the network joined the *European Business Angels Network*. Among successful Belarusian start-ups there can be highlighted *Flo Health Inc*, *PandaDoc*, *Banuba*, *Scorum* and others.

The analysis carried out in the study leads to the conclusion that there exist some obstacles to attracting foreign VC funding and creating an innovative venture ecosystem in Belarus, namely lack of consistent legislation, shortage of IT-developers, insufficient development of the stock market, flaws in legislation in terms of protection intellectual property rights, little practice of economic reporting under International Financial Reporting Standards (IFRS), a low share of GDP in the field of R&D (0,9 %) and others. These problems are to be step by step rectified. Presented in the study are the solutions to the issues of VC funding legislation and shortage of IT-developers.

In 2018 in Belarus Decree №8 introducing the concept of a ‘convertible loan’ was issued, which is a significant step to development of VC funding in Belarus. Due to this tool terms of a deal are more comprehensible to a foreign investor; there is no need to register a company abroad to raise investment; there is enforceability of court decisions under the agreement concluded in case of a dispute.

Thus, English law contributes to expanding the set of economic terms by introducing into domestic practice the concepts understood by foreign investors, which consequently results in raising foreign investment. Therefore, Belarus ought to gradually implement the other concepts. For instance, implementation of the concept of ‘options with employees’ will be an incentive for IT-developers to generate innovative applications in Belarus for relatively low remuneration as compared to US or European salaries. Such a tool allows IT-developers to hold shares and claim to receive dividends in case of success of an innovative project.

It is necessary to tackle the problems listed above step by step, which will result in attracting more foreign investments by raising money from foreign VC funds, creating new nets of ‘business-angels’ together with foreign investors, and consequently will lead to commercialization of innovative projects. Another key recommendation that has arisen from the study is that Belarusian start-ups should be adept at key tendencies and trends which are volatile, but the adherence to which is necessary for VC funding attraction.

The most significant findings of the research are as follows: the Belarusian venture ecosystem is analysed; the major obstacles to VC funding development are identified; and the solutions to issues of VC funding legislation and shortage of IT-developers are presented. It is hoped that this study will contribute to an increased awareness of the challenges faced by venture capital funding in Belarus.

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