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**DEVELOPMENT OF VENTURE FINANCING IN THE RUSSIAN
FEDERATION AMID SHIFTED GEOPOLITICAL REALITY**

Specialty: 5.2.4. "Finance"

ABSTRACT

Of the dissertation for the degree of Candidate of Economic Sciences

PhD supervisor:

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Relevance of the research topic. The global venture capital market reached a peak of \$766 billion in 2021 and then decreased to \$535 billion (-30.2% year-on-year) in 2022 due to the high base effect, geopolitical and macroeconomic instability in the world. In 2023, the global downward trend intensified with the volume of funds invested in venture companies declined to \$315 billion by the end of the year. Following the global trend, the sum of venture capital inflows in Russian companies reached a peak of \$2.1 billion in 2021 but fell 66.8% year-on-year in 2022, according to expert estimates. Despite the fourth position held by the Russian Federation in the world ranking by GDP size (purchasing power parity) and Russia's share of 3.8% of the world's GDP, the volume of venture investment in the country did not even reach 0.1% share (accounting to approximately \$0.1 billion investments in Russia startups) of the global venture financing by the end of 2023.

The final product of a successful venture business (recipient-company of venture financing/venture company) is the produced goods and services that are the result of scientific and technological progress. In the modern world, in the era of digitalization of the economy, innovation is one of the factors of the state's competitiveness in the international arena, as technologies can influence socio-economic development and set new global trends. Investors from all over the world are seeking out early-stage venture companies with high growth potential (startups), which will allow investors to make money on investing in the equity capital of promising companies. The investment attractiveness of such startups is due to extraordinary and breakthrough ideas, technologies and/or products that are becoming an economic good for their consumers.

In Russia, due to shifting geopolitical situation since 2014, there has been an unstable dynamic of venture investments, which requires substantial changes to develop the country's technological sovereignty. In 2022, as a result of increased economic pressure in the form of sanctions imposed on the Russian Federation, a significant portion of domestic venture investors, entrepreneurs and high-tech specialists left the country and/or ceased their activities within the Russian

jurisdiction in 2022. The ability of foreign investors to provide financing to Russian startups has become extremely limited due to economic sanctions and geopolitical risks.

To revive the domestic venture capital market, it is necessary to create a favorable investment climate in the country to attract investments from retail and institutional venture investors in Russian startups. Venture financing should become one of the key instruments for the development of the "financial market", "small and medium-sized businesses enterprises (SMEs)", and achieving "technological development" in the Russian Federation by 2030, in accordance with the relevant Russian Strategies and Concept. Due to importance of solving the set medium-term development tasks and the transition to an innovative path of economic growth amid a deficit of external sources of technology and financing, as well as increased risks for investors, it is necessary to stimulate the development of venture business in Russia.

The degree of the scientific coverage of the topic. The venture capital topic is quite popular in the global scientific community. According to one of the studies, during 2001–2021, 1,550 research papers on venture capital and 941 articles on private equity (categories: business, management, economics, and finance) were published based on data from one of the largest scientific platforms, Web of Science. The results of the study showed that, during this period, 45.7% of studies focused on the analysis of venture business in one specific country, while approximately 31% of papers covered venture activities in several jurisdictions at once. The share of studies on venture investments without a geographical focus was 23.3%. The United States (23.5% share), China (6.3% share), which has been gaining popularity in the last ten years, and the United Kingdom (2.6% share) shared the first three places in the regional ranking, respectively. In fact, Russia was not included to the list of 41 countries.

The author conducted his own analysis to determine the number of publications on venture investing in the Russian scientific community based on the

analysis above. A two-stage methodology for processing information was using the Elibrary electronic library database: 1) Russian journals published in Russian language, indexed in the Russian Science Citation Index, and included in the Higher Attestation Commission of the Ministry of Science and Higher Education of the Russian Federation (HAC) list; 2) articles published in these journals between 2001 and 2022 in which the word "venture" (with different declensions) is included in the title of the work, and/or in the abstract, and/or in the keywords of the publication. It was found that over 22 years, 2,629 scientific articles were published in 3,152 journals by Russian authors (of which 2,557 works are in the "Economics. Economic Sciences" category). Among those, 1,723 articles (65.5% of the total number of publications) were published in from 2013 to 2022. Thus, it can be concluded that the topic of venture business is relatively important in the domestic scientific community, with the greatest popularity of this research topic has been observed over the past 10 years.

The author's dissertation was based on a systematized analysis of scientific research by Russian and foreign scientists on the topic of venture capital. The author's dissertation was based on the works of the following authors: A.T. Aliyev, I.A. Antsibor, A.O. Baranov, P.S. Bondareva, V.R. Vesnin, R.O. Voskanian, V.D. Gribov, E.V. Gruzdeva, I.A. Ezangina, N.V. Kozlov, S.A. Kozlovskaya, M.A. Korsheva, A.V. Kozhanova, D.A. Laduba, E.Yu. Makushina, E.I. Muzyko, D.Yu. Nagornykh, L.N. Orlova, V.N. Pavlov, K.S. Prikhodko, K.S. Savina, K.V. Salnikova, L.A. Selyutin, D.S. Semenov, E.Y. Silpagar, N. Temuri, L.V. Chebukhanova, L.S. Tchugayeva, I.M. Shcherbakov, L.A. Yudintseva, E.O. Yakovlev, R.M. Yankovskiy, D. Cumming, S. Kumar, W.M. Lim, N. Pandey, J. Preet, S. Kuckreja, K. Mehta, and other researchers.

To analyze the impact of the changed geopolitical environment on the Russian venture business, papers of by the following authors were examined: D.A. Akimkina, S.V. Aluyan, V.Yu. Anisimova, O.M. Javadova, S.M. Gasankadieva, M.A. Ugryumova, K.V. Khoroshun, E.Yu. Khrustalev, O.E. Khrustalev, R. Gouvea, M. Gutierrez, and other Russian and foreign authors.

I.V. Berezinets, V.B. Bulatova, M.N. Gordeev, N.V. Grechkin, Y.B. Ilina, A.V. Kievich, D.A. Koypash, G.T. Papaskua, V.V. Pokidko, B.G. Saltykov, O.L. Chulanova, L. Hornuf, D. Schweizer, A. Schwienbacher, B. Yasar, and other authors in their studies examined crowdfunding as a method of collective investing in private companies, along with its various forms and its impact on venture business.

The financial literacy of the population is also a factor in the development of financial markets. The features of financial literacy in Russia and abroad, as well as the methods of its assessment, have been studied by: S.I. Volodin, V.I. Volkova, I.Yu. Evstafyeva, E.N. Dunenkova, E.A. Lysova, S.D. Nadezhkina, O.A. Chistyakova, T. Hammer, A. Lusardi, N. Porto, P. Siegfried, J.J. Xiao, and other scientists. Every year, investors all over the world become victims of financial pyramids and other fraudulent schemes due to an insufficient level of financial culture. This phenomenon has been analyzed by Yu. L. Verich, N.A. Kalutskaya, E.R. Kashapova, A.S. Kokorev, M.V. Ryzhkova, Ya. V. Shavikin, C. Engels, K. Kumar, D. Philip, and others.

A significant contribution to the research of the concept of sustainable development and ESG investing has been made by the following scientists: A.O. Volodina, I.V. Vyakina, A.Sh. Kasymov, M.A. Kaufmann, M.V. Kudina, A.M. Margolin, B.B. Rubtsov, T.A. Spitsyna, M.B. Trachenko, V.B. Frolova, L.P. Kharchenko, A. Ginsberg, A. Marcus, L. Lin, and others. These scientific studies were used by the author to assess the relationship between ESG goals and domestic venture financing.

Studies by A.E. Abramov, A.G. Alekseenko, O.A. Karpenko, A.G. Kosyrev, Zh.S. Kulizhskaya, A.D. Radygin, E.A. Stepanyan, O.V. Sushkova, D.B. Telibekova, R.G. Tonoyan, A.A. Turchenko, M.I. Chernova, M.S. Shalneva, and other Russian scholars, as well as foreign researchers: I. Drechsler, D. Erickson, R. Greenspan, M. Gofman, J.F. Gomes, R. Haniffa, M. Hudaib, C. Jun, F. Kiesel, H. Kim, M. Klausner, N. Klingelhöfer, J. Ko, T. Nawaz, M. Ohlrogge, A.B.

Poulsen, D.S. Riemer, N. Roussanov, E. Ruan, D. Schiereck, Y. Shachmurove, K. Song, M. Stegemoller, S. Vismara, M. Vulcanovic, Y. Yao served as the foundation for the analysis of exit strategies from venture deals and mechanisms for creating a “Company for the acquisition of special purpose assets” (CASPA) as an alternative method of placing private companies on the public market and as a potentially new way for venture investors to sell equities/shares on the Russian market.

Russian scientists have been elaborating on the problems of developing domestic venture financing for the last 20 years with a focus on the need to develop organizational and legal mechanisms that encourage the development of venture business. The shifted geopolitical reality dictates a new agenda. The venture capital market needs not only to adapt but also to demonstrate sustainable medium-term growth through the use of internal resources; thus, it is necessary to develop a comprehensive solution for attracting capital from Russian institutional and retail investors in venture business.

Stimulation of domestic venture investment should affect the competitive environment in the country, scientific and technical progress, creation of new work places, the development of financial markets, and, as a consequence, the economic growth of the Russian Federation. Therefore, **the object of this research** is the venture capital market and the features of venture financing in the Russian Federation.

The subject of this research is the tools for the development of venture financing, allowing to obtain a synergistic effect for all main stakeholders of the venture business (investors, entrepreneurs, society, and the government) in the shifted geopolitical reality. **The purpose of the research** is to develop scientifically based recommendations for the development of venture financing in Russia, including effective incentive mechanisms, the joint implementation of which will ensure the recovery and sustainable growth of the venture capital market in the medium term.

To achieve this goal, the following **objectives** were accomplished:

- Conduct an analysis of international experience in venture financing and study the impact of the shifted geopolitical reality on the formation and development of the domestic venture ecosystem;
- Develop a methodology for increasing the transparency of the Russian venture business;
- Conduct a study of the impact of equity crowdfunding on venture financing in Russia;
- Develop mechanisms for increasing the financial literacy and culture of the population, facilitating the attraction of additional investment resources to the venture business;
- Justify tools for stimulating venture financing of projects aimed at achieving the goals of sustainable development by private innovative companies;
- Conduct an analysis of existing methods and develop a new mechanism for companies to exit the venture business on the Russian market, taking into account the specifics of its functioning and the best world experience.

It is virtually impossible to completely solve all the problems associated with the development of the domestic venture capital market within the framework of this research paper. Therefore, the author focused on developing mechanisms which tend to solve those key issues that are the most relevant under new geopolitical reality, according to the author. First of all, attention is drawn to the problems of funding venture projects and the complexity of investors' exit from the venture companies. It was the study of these problem areas in complex that predetermined the logic of the presentation of the dissertation material and its structure.

Field of the research. The dissertation aligns with the HAC passport of the specialty 5.2.4. "Finance" including following areas:

- 18. Project and venture financing.
- 21. Financial literacy.
- 22. Financial instruments and operations.
- 23. Financial investments and financial innovations. Sustainable development finance. "Green" finance and environmental investments.

The methodological basis of the research consists of fundamental scientific papers of Russian and foreign scientists in the field of private equity and venture capital. The author applied methods of bibliographic, logical, information and comparative analysis, as well as economic, financial methods for collecting, processing and synthesizing qualitative and quantitative information related to the topic of scientific research. The author conducted interviews to process qualitative information on the subject of the research thesis.

The theoretical and empirical foundations of the study include:

- Scientific literature on research topic, including published results of Russian and foreign scientific research;
- Orders of the Government of the Russian Federation, federal laws of the Russian Federation;
- Interviews, studies, reports, press releases and statistical data from the Bank of Russia, the Federal Financial Monitoring Service (Rosfinmonitoring), the Ministry of Economic Development of the Russian Federation, the Ministry of Finance of the Russian Federation, the Ministry of Digital Development, Communications and Mass Media of the Russian Federation, and other official government agencies;
- Analytical reviews, reports and statistical data from Russian Venture Capital Association (RVCA), Moscow Exchange (MOEX), Internet Initiatives Development Fund (IIDF), Dsight, Dealroom, McKinsey, PitchBook, PREQVECA, SPAC Analytics, and other analytical services and consulting companies;

- Qualitative and quantitative information from Russian events dedicated to venture capital: Russian Venture Forum 2023, GoGlobal Forum 2023, Startup village 2023;
- Primary information from personal face-to-face interviews with six respondents who are experts in the field of alternative investments and venture capital: A.V. Aliyev, M.S. Boboshko, S.P. Ivanov, I.Yu. Movenko, S.P. Novikov, I.N. Stepanov.

The scientific novelty of the research:

- It is justified that, due to higher investment risks caused by a combination of reasons, including the lack of transparency of the domestic venture business, issues in funding startups, and the complexity of exiting venture deals, the volume of financing for Russian startups and the number of transactions is significantly less than results of countries with a developed venture market. The relevance of increasing the transparency of the venture market is growing amid the shifted geopolitical reality, when the Russian private investment market is experiencing a significant decline due to the outflow of investments from both non-residents and residents, along with the emigration of intellectual capital in the form of IT specialists and venture entrepreneurs overseas. At the same time, there is a noticeable demand from Russian startups participating in venture forums and events to obtain funding from venture investors. Due to import substitution in the domestic market, venture companies have the opportunity to create the essential technological products, the implementation of which requires the need to attract significant financing. It is justified that the global trend towards de-dollarization, as well as restrictions on the transfer of capital abroad and the trend towards import substitution of foreign products within the Russian jurisdiction, will facilitate the distribution of internal cash flows in the development of domestic assets, including those created as a result of the implementation of venture projects.

- A methodology has been developed to increase the transparency of the venture capital market, which helps create objective prerequisites for the development of private initiatives in the field of technological entrepreneurship and their effective government support, which is especially relevant given the need to achieve technological sovereignty. The main elements of the methodology are the optimization of current approaches to collecting and processing information on the venture capital market, the systematization of statistical data by the regulator (Bank of Russia), the publication of results in the Russian national currency, segmentation of venture investors into foreign investors, institutional investors, corporate investors, crowdfunders and retail investors. The specified methodology is intended to reflect official statistical information that will be used as a “guide” by potential venture investors, entrepreneurs, and other stakeholders;
- It has been proven that equity crowdfunding (crowdfunding) is an innovative method of collective venture financing, which has demonstrated positive dynamics under the new geopolitical conditions and contributed to increasing the inclusiveness of the venture financing market. The author has identified prospects for further growth in crowdfunding volumes, which stimulate the development of domestic venture business, and recommendations for increasing the efficiency of using this modern financial mechanism in the Russian market have been justified;
- It has been justified that increasing the financial literacy of the population is one of the important factors in attracting additional financial resources to the development of the venture business. Actually, despite the lack of sufficient knowledge of financial markets, which is usually limited to traditional bank deposits and, in best case, primary ideas about stock and bond markets, many private investors are prone to risk. For these reasons, some Russian private investors continue to invest in the financial pyramids in the amount comparable to the volume of the venture capital inflows. It

has been revealed that the wealth of investors does not always indicate their financial literacy, which is confirmed by large investments in illicit financial schemes. It has been proven that further improvement in the financial literacy of the population will increase the volume of venture financing from retail investors, crowd investors, and business angels by at least 4 billion rubles, by 2030. It is necessary to include a section on venture financing in the “Strategy for Improving Financial Literacy and Developing Financial Culture Until 2030”, which includes expanding the range of educational programs at universities on venture business, scientific and practical conferences, exhibitions, and the advertising of best practices for implementing innovative venture projects, development, and inclusion in the “Finance and Economics” section (code 08) of the professional standard “Specialist in private equity and venture capital”.

- The author has conducted comparative analysis of venture ESG investing in foreign countries and in Russia, where the implementation of ESG-focused startups without government support is difficult. Opportunities have been identified to expand venture investing in sustainable development projects and ESG transformation of business management systems through the use of equity financing instruments, the potential of which is currently underestimated. The main instruments for stimulating venture ESG financing are: a) expansion of government support measures in the form of grant programs and debt financing with subsidized interest rates to small and medium-sized businesses that operate in socially significant sectors of the economy and follow the principles of sustainable development; b) improving the financial literacy of the population in the field of sustainable entrepreneurship and investing in ESG-oriented startups; c) stimulating institutional investors (pension funds, insurance companies, asset managers, and others) who are traditionally risk-averse and invest in stocks and bonds avoiding ESG-oriented domestic venture business; d) formation of an ESG ratings for startups; e) adding official data on ESG venture deals to an

additional section within the framework of the author's methodology for increasing the transparency of the venture market to assess the development of its dynamics. According to the author's forecast, if these initiatives are implemented, the share of venture ESG financing should reach at least 50% of all Russian venture investments by 2030, which will contribute to the achievement of sustainable development goals and will have a positive effect on the dynamics of capital investments in Russian venture companies.

- It has been proven that one of the unused opportunities for solving the problem of developing the Russian venture ecosystem, associated with the difficulties of investors exiting venture companies (sale of equities/shares), is the creation of "Company for the acquisition of special purpose assets" (CASPA). An analogue of the CASPA, which has not yet received legal status in Russia, is the concept of a shell company/special purpose acquisition company (SPAC), which has been actively covered in the international information agenda since 2020 and is used as the main alternative to a traditional initial public offering (IPO) in many countries. The main objective of the CASPA is to find and acquire a special purpose asset - a promising non-public innovative company (target company) with high growth potential. Recommendations for the use of CASPA in the Russian market have been elaborated. It has been justified that the use of CASPA, with the potential listing on Russian stock exchanges, will result in developing, scaling, and selling venture business in the domestic market without the exploitation of foreign financial markets. It is expected that the use of CASPA will not only contribute to the development of the domestic venture market, but will also have a positive impact on the Russian stock market.

The theoretical and practical significance of the study is the justification of new mechanisms for the development of domestic venture investment, as well as the possibility of practical application by venture capital market participants of the methodology for increasing the transparency of the venture business and the

Russian concept of "Companies for the acquisition of special-purpose assets" developed by the author. The provisions and conclusions of this dissertation can also serve as a basis for further scientific research in the field of private equity and venture capital.

Degree of reliability and approbation of the research results. The reliability of the research results is confirmed by an integrated approach to conducting scientific research, as well as by the calculations performed by the author and the examination of the results obtained from professional venture market participants.

Practical approbation of the author's research results took place during the scientific conference "ESG-transformation of management systems and sustainable development" (Moscow, RANEPa, December 20, 2023).

The results of the dissertation research were also partially presented by the author at the discussion meeting "Private placements (closed subscription) in Russia. Current issues and problems", organized by the Department of Financial Market Infrastructure of the Faculty of Economic Sciences, HSE (Moscow, HSE, February 28, 2024).

The results of the study have been implemented in the operations of the consulting company, which specializes in Russian startups DC LLC: Taxpayer Identification Number (INN) 9704214157, Primary State Registration Number (OGRN) 1237700409352.

Publications. The author had published five research papers with results on the topic of research thesis in scientific peer-reviewed journals approved by the Higher Attestation Commission during the period of scientific research activity:

1. Margolin A.M., Sinyutin L.P. Underlying Challenges for Russian Venture Industry Development and Methods for Their Solution. Administrative Consulting. 2022. № 1. P. 47–63. (In Russian). DOI: 10.22394/1726-1139-2022-1-47-63. **(the author's contribution – 0.55 p.s.)**

2. Sinyutin L.P. Russian special purpose acquisition companies concept creation for the domestic venture industry development. *Economic Systems*. 2022. № 3 (58). P. 66-89. (In Russian). DOI 10.29030/2309-2076-2022-15-3-66-89. **(the author's contribution – 1.47 p.s.)**
3. Erokhina A.V., Sinyutin L.P. Development of sustainable equity financing to promote the Russian venture capital industry. *Gosudarstvennaya sluzhba*. 2023. № 1. P. 31–40. **(the author's contribution – 0.52 p.s.)**
4. Margolin A.M., Sinyutin L.P. Financial literacy of the population as the development factor of venture capital investing in Russia. *Finances, Money & Investments*. 2023. № 1. P. 18–26. (in Russian). DOI: 10.36992/2222-0917_2023_1_18. **(the author's contribution – 0.46 p.s.)**
5. Sinyutin L.P. Crowdfunding as an innovative method of venture financing in Russia // *Banking services*. 2023. № 10. P. 19–27. (in Russian). DOI: 10.36992/2075-1915_2023_10_19. **(the author's contribution – 0.73 p.s.)**

The total volume of research papers written by author was 5.05 p.s. (author's contribution – 3.73 p.s.).

The structure and the scope of the research are determined by the purpose and objectives of the research. The dissertation consists of an introduction, three chapters, a conclusion, a list of references, and 7 appendices. The dissertation is written on 190 pages and includes 30 figures, 12 tables, and 260 references (including 122 scientific articles, 7 textbooks, and 8 dissertations on the research topic).