Alena Turava
2nd year SS2 International Business

The perspectives of venture capital in Central and Eastern Europe

Introduction

In the 21st century, the level of modern development of society depends not only on the level of the industrial economy. The large-scale changes of the world began with the invention and implementation of new technologies. The prospects of development of a country significantly depend on conditions and productiveness of the scientific and technical sector of the economy. However, the implementation of transition to the innovative and technological model of economy requires financing. New technologies are connected with high risk, and their implementation can be provided only by specially created financing form with necessary financial resources, such as venture capital (VC). In developed countries,VC investment is the most important source of financing for scientific research and innovative activities.

Public interest for the VC industry has risen fast in the last few decades for several reasons. The amount of capital in the industry grew to the enormous numbers. Furthermore, the increasing importance of small and medium-sized enterprises and high-technology startups has made an active VC market vital for the success of every country. In fact, the VC industry has developed into a substantial component of the corporate financial sector in nearly every major economy. That is why the growth of the VC industry in Central and Eastern European (CEE) region is one of the priority directions of the state innovative policy and a necessary condition of enhancement of innovative activities and increase in competitiveness of the domestic industries. To guarantee the future success of VC industry in CEE, it is important to explain the reasons behind the observed performance gap and to analyze the condition and perspectives of the industry in CEE region.

While working on this paper, the most relevant academic literature about the VC was reviewed. The major focus was on resources studying the determinants of VC and VC financing process as well as the works on the experience in the creation of well-functioning VC systems around the world. The statistical data on CEE region and its countries were analyzed with the help of the data, papers and researches of Eurostat, Ernst & Young, KPMG, EVCA (in 2016 it was renamed as Invest Europe).

1. The importance of venture capital

VC has become a vital part of financial markets providing capital to companies that in the other case may face problems in attracting financing. As a rule, such companies are small and young, overwhelmed by high levels of insecurity and a large gap between what entrepreneurs and investors know. Moreover, such companies usually own few tangible assets and function in markets that change very fast. VC firms invest in such risky, potentially high-profit companies, obtaining equity or equity-linked stocks while the companies are still privately owned. In other words, VC is an investment of capital which is aimed to support either the activity of new companies which has no revenue at the present stage or the research or/and development of a product or technology[1].

But why VC is important? Apart from big corporations that invest large amounts of money to their Research and Development (R&D) departments, a lot of innovations appear from creative entrepreneurs and small and medium firms which are willing to build a winning business. Moreover, successful start-ups and entrepreneurs with their innovative activity tend to grow at high rates turning into large companies and making their contribution to the economic growth of a country. The importance of creating opportunities and environment for small and medium enterprises (SMEs) should be stimulated in every country.

In the second half of the 20th century, VC played the major role in the implementation of the largest scientific and technical innovations in the field of microelectronics, computer facilities, informatics, biotechnology and in other knowledge-intensive industries of production. Therefore, the development of venture business is actively promoted by state bodies of a number of the leading industrial countries. They proceed from the need of anincrease in competitiveness of the national industries in the conditions of a high competition in the world market.

2. The role of the state in venture capital industry development

In the modern conditions, the innovative model of the economy is a basis for the national competitiveness of countries. However, the dynamic transition of

[1] S. Acland, Angels, *Dragons & Vultures How to tame your investors... and not lose your company*, Nicholas Brealey Publishing, London 2011, p. 4.

economy and business to an innovative model of development is impossible without the active participation of the state[2].

The economic logic of how to bring innovative projects to life and, hence, influence the economy, led to the way of development of such organizational management decisions which, on the one hand, would promote implementation of risky and promising entrepreneurial projects, and, on the other hand, would allow minimizing financial risk for certain investors. This approach has materialized finally in venture funding mechanisms and governmental programs for entrepreneurial projects.

Governmental initiatives of VC support are directed mainly to the strengthening of innovative nature of the economy. Their direct tasks include the following:

– development of the sphere and opportunities of venture investment for SMEs;
– simplification of access to VC for SMEs;
– enhancement of country's innovations and competitiveness by the encouragement of creation of innovative entities and their financing during early stages.

The successful international experience determines a role of the state and its programs of support of VC development as a catalyst for the start of VC processes in a country. There are several examples of this, such as SBIC program in the USA, Finnish National Fund for Research and Development (SITRA) in Finland, and Yozma program in Israel[3].

The experience of successful VC industries shows that to have a successfully working VC ecosystem there should not only be the financing of SMEs. The VC ecosystem can be determined as such model of the VC industry in which the ideal system of interaction of all its elements is realized, including societies, states, business, and its self-maintenance and self-development are provided at the expenses of private equity (PE).

Participation of the state in regulation and support of the major elements of the national innovative system inevitably shall be bigger than in other subsystems of the economy due to high risk and importance of the expected results. It should include a number of the regulating departments, law and, as the main thing, a considerable amount of a financial support. In modern conditions, direct state participation and filling of market gaps are the most important methods of reduction of risks in the areas important for society and economy. Consequently, it promotes attraction of private business and equity in the area.

---

[2] H. Doss, *It's Time to Build a National Innovation Infrastructure*, „Forbes", 01.06.2016, http://www.forbes.com/sites/henrydoss/2016/06/01/its-time-to-build-a-national-innovation-infrastructure/#19d77ae17072 [access: 25.06.2016].

[3] I. Radionov, A. Nikkonen, *Venchurnyj Kapitali PrjamyeInvesticii v Innovacionnoj Ekonomike. Rynok Venchurnogo Capitala*, RAVI, Sankt Petersburg 2011, p. 121.

For launching of VC system governments often use mechanisms of public-private partnership (PPP), the purpose of which is the creation of the independent and profitable VC industry directed to investment into small innovative enterprises. The state takes the part of risk which business, within its own financial strategy, is not able to afford and, therefore, creates an environment for the private capital inflow in the priority economy areas. The mechanism of PPP cooperation in the VC industry involves governmental shareholding in venture funds directly or through the mediation of fund of funds (FoF), and, also, financial assistance to private venture funds and innovative companies. Besides, the state should prepare the ventures for future investors by financing them at a preliminary stage.

Finally, the important aspect is the creation of VC infrastructure, i.e. training of innovative managers, the organization of educational programs, training centers of entrepreneurs in VC culture, holding venture fairs such as meeting places for the investors and the companies wishing to raise funds. In any way, the state has an opportunity to repeatedly pay back the investments through the taxes collected from the firms created by means of the fund.

The main objectives of the state are to attract private business to the VC industry, to create attractive working conditions for private capital, to form a labor market consisting of professional specialists in the field of VC, and to stimulate participants of the market to accumulate experience in VC activities. After achievement of the required level of VC industry development, the state conducts a gradual withdrawal of public funds from the VC market and reduces the intervention in its work which is the evidence of creation in the country of the steady VC industry functioning as an ecosystem. In the countries with the developed VC industries, such as the USA, the UK, and Israel, the state provided considerable support to form and stimulate the VC industry. At the same time, the institutional conditions of VC industry are constantly enhancing independently according to the changes in the external environment of innovative business and new trends in the world market of innovations.

3. Development of venture capital industry in Central and Eastern European countries

VC business has developed in a powerful world industry. Globally, mainly in the USA and some countries of Western Europe, mechanisms of venture funding of entrepreneurial projects have been widely used in practice for several decades. The total VC activity in the world market exceeded 148 bln USD in 2015, with the US as a leading arena for VC deals and their value. The USA, China, and the EU are the key regions for the VC fundraising with 72.3, 49.2 and 14.4 bln USD respectively[4].

The countries of CEE considerably lag behind the Western European states and the USA on the level of development of the market of VC. The high-risk investments which became possible after the dissolution of USSR and communistic regimes were typically connected with the mass privatization of state-owned companies. At the initial stages of transformation of the economy, there were no institutions possessing the equity and know-how essential for the implementation of VC investments[5].

VC activity of the CEE region especially improved after these countries joined the EU. The Czech Republic, Hungary, Poland, Slovenia, Slovakia, Latvia, Lithuania, and Estonia joined it in 2004. In 2007, also Bulgaria and Romania became members of the EU. Becoming a member of the EU is of a great importance for the candidate country and has many positive outcomes. Investors inevitably recognize countries that are the EU members, or the EU candidates, as being less risky with growing markets, not to mention the importance of harmonization with the EU standards in the law, administrative and economic policies that further improve the investment climate.

By 2016 almost all of CEE countries have politically integrated into the EU. The region possesses a developed legal and regulatory system that diminishes risk and offers the effectiveness of developed markets. Ultimately, this region faced the fast development of law and practice as a result of the transition from the economy, where foreign investments were controlled tightly, to a free market system. Moreover, most of the experts agree in opinion that the market of VC in the states of CEE has great opportunities for further growth.

However, for the CEE region taken together, the complexity of economic and innovative development is multiplied for the number of the countries sharing the process. When the CEE region is analyzed it should be taken into the consideration that the development and the dynamics of VC industry for the countries significantly differ. Although the condition for the overall region is shown as one picture and may be stable and growing, each state of this group has its own specifics and intensification of VC market. In some of the countries, the main source of capital for starting a business remains traditional bank loan and the mechanism of VC is still untested area.

CEE VC fundraising reached 166 mln EUR in 2015, a level similar to 2014, which accounts for nearly 40% of all PE raised in CEE region in 2015. As shown in Fig. 1, there was no stable trend in the level of attracted funds as since 2007 till

---

[4] EY Global Venture Capital Trends 2015, EYGM Limited 2016, p. 3.

[5] I. Dvorzhak, Y. Kochishova, P. Prokhazka, *Venchurnij Kapital v Stranah Centralnoj i Vostochnoj Evropy*, „Mezhdunarodnyj Zhurnal, Problemy Teoriii Praktiki Upravlenija" 1999, nr 6, http://innovbusiness.ru/content/doc-393.html [access: 09.08.2016].

2015 it fluctuated within 54 and 196 mln EUR. Hence, it is quite difficult to predict the trend for the foreseeable years. However, the figures show a positive picture for VC as a provider of finance in CEE even though the figures are not as high as for the developed regions.

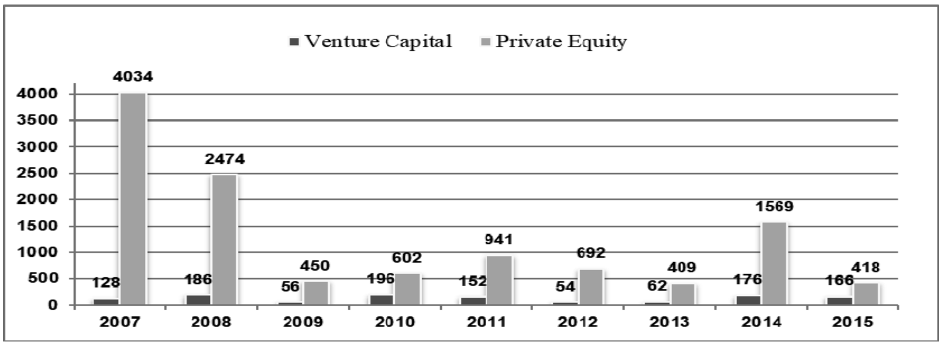

Figure 1. VC fundraising in CEE in 2007–2015 (mln EUR)

Source: Own elaboration based on *Central and Eastern European Private Equity Statistics 2015*, Invest Europe, Brussels 2016, pp. 8, 11.

CEE VC fundraising reached 166 mln EUR in 2015, a level similar to 2014, which accounts for nearly 40% of all PE raised in CEE region in 2015. As shown in Fig. 1, there was no stable trend in the level of attracted funds as since 2007 till 2015 it fluctuated within 54 and 196 mln EUR. Hence, it is quite difficult to predict the trend for the foreseeable years. However, the figures show a positive picture for VC as a provider of finance in CEE even though the figures are not as high as for the developed regions.

By country, the most active VC market in CEE region in 2015 was Hungary, attracting around 25 mln EUR or 29.6% of the year's venture investments by value. Poland attracted 20 mln EUR or 23.3% of the total. These two countries make the leading markets by number of companies financed with VC, 62 in Poland and 57 in Hungary, together making up over half of the region's venture financed companies during the year[6]. Those countries were the leading VC markets as well in 2014. The moderately active markets of 2015 comprise of Lithuania with 11.7%, Slovakia with 10.6% and Latvia with 7.8% of the VC investments. The remaining countries made 16.9% altogether. However, Bosnia & Herzegovina, Macedonia, Moldova, and Montenegro did not attract any VC in the previous years[7].

[6] *Central and Eastern European Private Equity Statistics 2015*, Invest Europe, Brussels 2016, p 27.

[7] Ibidem, p. 27.

4. Programs and private-public partnerships financing public venture capital schemes in Central and Eastern Europe

In the period from 2007 to 2014, in the CEE countriesseveral VC initiatives of the EU took place. In 2005, one of the schemes under these organizations, named Joint European Resources for Micro and Medium Enterprises Scheme, or JEREMIE, was proposed for the EU Member States, including CEE countries[8]. By means of this scheme, the Member States got the opportunity to use a share of their structural funds to invest in expansion and innovation of SMEs or create new businesses by means of different revolving financial instruments. The financial instrument offered by the JEREMIE program allowed all the EU Member States to direct a share of structural funds to VC, as recoverable funds. However, the VC comprised only a minor share of the JEREMIE program, while the loans and guarantees were much weightier. Moreover, the VC was not even used by some of Member States.

Apart from the JEREMIE program, there were also other initiatives that provided opportunities to establish a holding fund by means of the EU funding. In Poland, for instance, there was a program provided by the Polish National Capital Fund that offered private investors in a FoF scheme to institute a joint VC fund. The public funds were created as joint VC funds, funded from both the national programs and by private investors, or to co-finance VC funds with no private investors.

The statistical data for the EU shows that, in spite of the several EU programs, only a very small share was used by the states to finance VC. Between years 2007 and 2013, public capital used for VC funds in the CEE region comprised only 6% of the value of the operational programs, while the funds have by far used less than 60% of the allocations[9]. By the beginning of 2016, 64 VC funds established in CEE, financed by states, allowed the investment of 1.1 bln EUR. The governmental investment had to comprise at least 15% of funding along with the financing coming from the EU. The leverage effect of governmental investment may be seen from the fact that it allowed around 400 mln EUR in private investment to be raised in the VC market of CEE[10].

The figures could have been higher; however, the application of the program faced several obstacles that prevented the fast development of VC in the region. It took a significant time for many countries to start the initiatives and to organize work of the funds in a country. The procedures could take even several years and included the approval of the funding schemes, the establishment of the holding

[8] *EU Funds in Central and Eastern Europe, Progress report 2007–2012*, KPMG 2013, p. 17.

[9] Ibidem, p. 35.

[10] J. Karsai, *Are CEE states successful as venture capitalists?*, Hungarian Academy of Sciences, Budapest 2015, p. 9.

funds, and launch of tenders, search for experienced managers, negotiations of the terms of investment, etc.[11] By the time the funds were ready to operate a lot of time had already passed and still demanded more time for allocating the funds, as it is the most crucial period in the lifetime of funds. For instance, more than half of the JEREMIE program's time frame in Latvia was spent on the legal and institutional establishment of the facility, the selection of the intermediate managers and creating the funds, and then publishing the offers[12].Also, by 2014 in Hungary, which was the first country in CEE to launch the JEREMIE VC program, 10 of the 28 funds were finally not established, mostly because of the repetitive licensing to increase the sizes of these funds[13].

Another important problem that VC faced was the constraints concerning what type of companies a fund can actually finance, for instance, limiting the list to ventures of a certain development stage or size. Constraints also included the amount of capital that could be invested in a venture with a financing decision or specific types of securities the investor could use. Such kind of restrictions can be reasonable from the state's policy point. However, they mayhin der the practice of business as the intentions of the public and private sectors do not always match. Moreover, it should be taken into consideration that the regulations designed within the programs may work in the markets of developed countries but may be a barrier for creation and enhancement of VC industry in developing ones. As CEE region has been quite young, the theoretical knowledge and practical experience of the other countries with well-functioning VC markets could not be applied in the area at a fast pace. All of the countries have their own specifics and the situation when a country wants to develop PPP or create a FoF may meet a number of barriers.

5. Enhancement of venture capital in Central and Eastern Europe

In the latest years, there is a move of focus from "traditional" VC countries towards emerging regions. Emerging countries are getting more of higher interest for the higher yields and growth possibilities and that require a sizable funding[14]. However, the emerging markets should be sufficiently mature for VC investments as too early entry can be not a beneficial strategy for investors.

The region of CEE is facing a rising attractiveness as an investment destination. Though the CEE states are still in the process of transition, many improve-

[11] Ibidem, p. 14.
[12] Ibidem, p. 14.
[13] Ibidem, p. 14.
[14] A. Groh, H. Liechtenstein, *Assessing Country Attractiveness in the Venture Capital and Private Equity Landscape in Emerging Markets*, 2012, http://dx.doi.org/10.2139/ssrn.2021987 [access: 10.09.2016].

ments have taken place in the last years, especially in the financial sector, the area of corporate governance and the protection of property rights. The EU accession and regulatory changes have made the CEE nations very attractive compared to the other emerging regions. Therefore, the institutional and societal prerequisites are very favorable in the region. Moreover, the spheres of services connected with finance, logistics, healthcare, customer service, and infrastructure are reaching the high standards. Also, the growth estimations in CEE are above average and are expected to remain over the next decades. Entrepreneurial activities are on the rise and are supported by the various initiatives of the EU to promote innovations. Another attractive factor for allocating business in the region is the cost of the labor force. The countries of CEE have lower hourly cost apart from the EU-15 countries where wages can be times higher.

However, the transformation of the markets is not yet completed and apart from the attractive side of the region there are several, sometimes very valuable, weaknesses. The VC and PE (VC/PE) Country Attractiveness Index gives a more precise look at the situation of CEE countries. The index consists of six key categories of country attractiveness for VC/PE investors which are economic activity, depth of the capital market, taxation, investor protection and corporate governance, human and social environment, and entrepreneurial, culture and deal opportunities. Fig. 2 includes various sub-indicators within VC/PE Country Attractiveness Index for the average of CEE countries with the EU-15 states as a benchmark.

The region has relatively small economies, with high unemployment rates, and small and illiquid capital markets (Fig. 2). As was mentioned before, the capital markets are a strong deficit compared to the EU-15 level.

Taxation appears to be the strongest component of the CEE countries attractiveness for VC/PE investors. However, taxation depends on local legislation and can be relatively quickly and arbitrarily adapted by politicians. In 2004, the United Nations stated that the authorities of CEE countries tried to attract investors with low levels of corporate taxes and tax incentives as part of the accession process to the EU[15].

By contrast, the human and social environment of the CEE countries is on par with the EU-15 average. Another weak area in the CEE is entrepreneurship. Though privatization and large enterprise restricting processes are mostly complete, entrepreneurial opportunities are deficient. Also, the burden of starting a business is much higher than the EU-15 average. Innovation in the region ranks poorly due to the low number of patents and scant public and private R&D expenditures. Overall, at the current socio-economic conditions, the CEE region is slightly less attractive than the EU-15 group and offers by far greater potential.

---

[15] A. Groh, H. Liechtenstein, *Investing in Venture Capital and Private Equity in Central and Eastern Europe: a Ranking of the Most Attractive Countries*, IESE Business School, Barcelona 2006, p. 16.

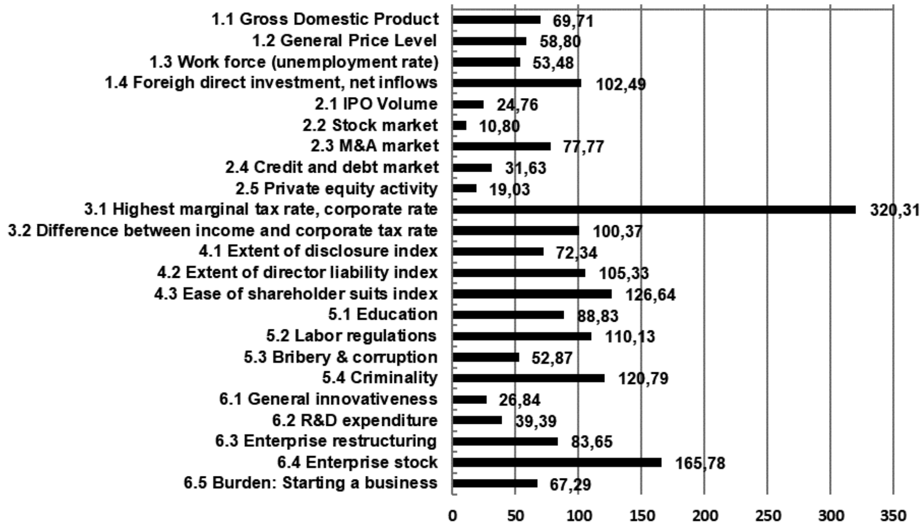

Figure 2. CEE strength and weaknesses, EU-15 = 100

Source: *The Venture Capital and Private Equity Country Attractiveness Index Ranking*, http://blog.iese.edu/vcpeindex/ranking/ [access: 18.09.2016].

Taxation appears to be the strongest component of the CEE countries attractiveness for VC/PE investors. However, taxation depends on local legislation and can be relatively quickly and arbitrarily adapted by politicians. In 2004, the United Nations stated that the authorities of CEE countries tried to attract investors with low levels of corporate taxes and tax incentives as part of the accession process to the EU[16].

By contrast, the human and social environment of the CEE countries is on par with the EU-15 average. Another weak area in the CEE is entrepreneurship. Though privatization and large enterprise restricting processes are mostly complete, entrepreneurial opportunities are deficient. Also, the burden of starting a business is much higher than the EU-15 average. Innovation in the region ranks poorly due to the low number of patents and scant public and private R&D expenditures. Overall, at the current socio-economic conditions, the CEE region is slightly less attractive than the EU-15 group and offers by far greater potential.

As it is seen from the analysis of the index that the opportunity of growth is not the only factor that renders attractiveness of economies for VC investments, and it is broader conditions that motivate the whole industry. The growth of VC industry infrastructure and investment environment involves a lot of socio-economic and institutional conditions. The CEE countries are still in a period of a profound transi-

[16] A. Groh, H. Liechtenstein, *Investing in Venture Capital and Private Equity in Central and Eastern Europe: a Ranking of the Most Attractive Countries*, IESE Business School, Barcelona 2006, p. 16.

tion and it might take several decades for the region to catch up. On one side, this is bad for the attractiveness to institutional investors who tend to neglect smaller economies, but on the other side, this reveals the enormous growth and catch-up potential. The level of education is high, the workforce is cheap and the institutional structures have been converging for some time. The speed of the transition process differs greatly by the country. Some nations, for instance, Poland and Hungary, have worked hard to implement reforms while others, like the Czech Republic, Slovakia, and Bulgaria, have moved at a slower pace.

Relying on the experience of developed countries, such as the USA, the EU, and Israel, CEE countries have recently initiated state programs of innovative development assuming the creation of a competitive product on the basis of the use of internal and foreign scientific potential and transfer of technologies. Taking into account the existing state support of VC in CEE, many foreign and internal investors got an opportunity to increase their capital through an investment in VC funds at the same time distributing the investment risks. As a result, with the help of governmental or the EU initiatives, there were created FoFs that are aimed at the development of high-technology projects in the perspective industries oriented to export. However, in most of the CEE countries modern VC industry cannot be created with the help of just governmental actions. Therefore, the main obstacles to the development of VC business are a number of natural problems which almost every country faces when beginning the process of the organization of VC industry. These problems from venture capitalist's point may include:

- weak commercialization of high-tech projects;
- defect of projects;
- unwillingness of initiators to lose control over business;
- lack of the single database on projects;
- shortage of specialists;
- deficit of projects;
- shortage of managers who could bring the project from start to final implementation.

Problems from VC – backed company point in CEE may include:

- lack of sources of venture funding, including traditional sources for foreign economies, such as pension funds and insurance companies;
- low level of capitalization of VC funds and projects; for instance, the maximum amount of financing of the VC project in many CEE venture funds does not exceed 1 million EUR that is not enough for the development of a high-tech project;
- a small number of high-tech projects in VC funds;
- poor development of VC funds;
- outflow of VC resources, projects to other markets;
- slow attraction of modern Western technologies and managers;

– lack of a strong legislation in the field of protection of rights of all classes of investors.

The basis for the VC industry in countries of CEE is already set and the created venture funds gradually enhance their activity. The problems of VC funding of innovative activities require the continuous actions from the state and from other participants of VC business, as the obstacles which arose on the way to forming of VC industries in CEE are temporary and have determined solutions.

There are several ways for overcoming temporary difficulties on the creation of national systems of VC funding. Firstly, there is the lack of institutional sources of VC. The experience of many developed countries shows that strategic partners – venture funds, incubators, the state venture or innovative funds are engaged in financing at the initial stage of the innovative projects. Banks start participating in high-tech project financing only at final stages when the idea passed all preliminary stages and came to the level of a market product. As a result, participation in the development of the VC industry of the pension funds and other institutional investors by financing the young companies through venture funds, in many respects could solve a problem of the insufficient amount of VC.

Secondly, it is necessary to create a more extensive market of VC including a big network of VC funds, communities of venture capitalists, large companies which would be actively engaged in VC business. In each state, there should be founded a national institution for VC which main objective will be the attraction of the capital and creation of a network of VC funds.

Moreover, the most important and difficult stage of VC investing process is the return of investments which is performed in specific forms of exit from VC projects. In this regard, the mechanism of venture funding shall provide the methods and schemes providing exits which are directly interconnected with the capital market. Therefore, the availability of the *over-the-counter* market can provide VC investor with a possible exit from the project creating a condition of liquidity of investments. Insufficient development of the capital markets in CEE may prevent VC firms to make the IPO in the stock market and to deprive of an exit from the business. In this case, as it was noted, availability of the *over-the-counter* market can create an additional exit route for a VC investor. For successful development of VC industry in CEE countries, it is also necessary to establish tax benefits on the income of the VC investor, in the case of exit from the VC project. Moreover, there should not be introduced any special requirements for VC activities, for instance, licensing or the sizes of the ventures to invest in creating favorable conditions and the natural demand-supply of the VC industry.

Additionally, it is essential to establish educational institutions for the preparation of a qualified workforce in the sphere of VC. The lack of the managers able to prosecute the projects of VC from the very beginning until the exit of the fund from the venture is a considerable obstacle to the VC industry.

Conclusions

The countries of CEE considerably lag behind the Western European states and the USA on the level of development of the market of VC. However, in CEE there has recently been made a progress concerning conditions that could increase VC investments. By 2016 nearly all of CEE countries have politically integrated into the EU. The region possesses a developed legal, regulatory and judicial system that diminishes risk and offers the effectiveness of developed markets, apart from the other emerging regions in the world. Moreover, the institutions of the EU have been opening various initiatives and funds in order to promote the development of VC in CEE.

According to the VC/PE Country Attractiveness Index, the region of CEE has relatively small economies, with high unemployment rates, and small and illiquid capital markets. Taxation appears to be the strongest component of the CEE countries attractiveness for VC/PE investors. The culture of CEE shows strengths in the area: high educational standards, good labor regulations, and low crime rates. However, bribery and corruption still remain higher in the CEE countries than in Western Europe.

At the moment the basis for the VC industry in countries of CEE is already set and the created venture funds gradually enhance their activity. However, the problems of VC funding of innovative activities require the continuous actions from the state and from other participants of VC business, as the obstacles which arose on the way to forming of VC industries in CEE are temporary and have determined solutions.

References

Acland S., *Angels, Dragons & Vultures How to tame your investors... and not lose your company*, Nicholas Brealey Publishing, London 2011.

Central and Eastern European Private Equity Statistics 2015, Invest Europe, Brussels 2016.

Doss H., It's Time To Build A National Innovation Infrastructure, „Forbes", http://www.forbes.com/sites/henrydoss/2016/06/01/its-time-to-build-a-national-innovation-infrastructure/#19d77ae17072.

Dvorzhak I., Kochishova Y., Prokhazka P., *Venchurnij Kapital v Stranah Centralnoj i Vostochnoj Evropy*, „Mezhdunarodnyj Zhurnal, Problemy Teoriii Praktiki Upravlenija" 1999, nr 6, http://innovbusiness.ru/content/doc-393.html.

EU Funds in Central and Eastern Europe, Progress report 2007–2012, KPMG 2013.

EY Global Venture Capital Trends 2015, EYGM Limited 2016.

Groh A., Liechtenstein H., *Assessing Country Attractiveness in the Venture Capital and Private Equity Landscape in Emerging Markets*, 2012, http://dx.doi.org/10.2139/ssrn.2021987.

Groh A., Liechtenstein H., *Investing in Venture Capital and Private Equity in Central and Eastern Europe: a Ranking of the Most Attractive Countries*, IESE Business School, Barcelona 2006.

Karsai J., *Are CEE states successful as venture capitalists?*, Hungarian Academy of Sciences,Budapest 2015.

Radionov I., Nikkonen A., *Venchurnyj Kapitali PrjamyeInvesticii v Innovacionnoj Ekonomike. Rynok Venchurnogo Capitala,* RAVI, Sankt Petersburg, 2011.

The Venture Capital and Private Equity Country Attractiveness Index Ranking, http://blog.iese.edu/vcpeindex/ranking/.

Summary

The paper describes the importance of governmental actions of a country or a region to form and stimulate the VC industry. The state support has the key value for the development of VC industry. It proceeds from the need of anincrease in competitiveness of the national industry in the conditions of a high competition in the world market. The region of CEE possesses a developed legal and regulatory system that diminishes operational risk and enhances the effectiveness of developing markets. However, there are weaknesses of this region that can be obstacles for VC investments inflow. The paper shows the problems of the VC environment in CEE that are able to explain, at least partially, the condition of the VC industry and its lag behind the developed countries, and gives some practical suggestions in order to enhance the VC development in the region.

Keywords: venture capital, private equity, fund of funds, public-private partnership, Central and Eastern Europe

PERSPEKTYWY ROZWOJU VENTURE CAPITAL W REGIONIE EUROPY ŚRODKOWO-WSCHODNIEJ

Streszczenie

W artykule omówiono znaczenie działań rządowych danego kraju lub regionu pobudzających branżę VC. Wsparcie państwa ma istotną wartość dla rozwoju branży VC. Wynika to z potrzeby zwiększenia konkurencyjności przemysłu krajowego w warunkach wysokiej konkurencji na rynku światowym. Region Europy Środkowo-Wschodniej posiada rozwinięty system prawny i regulacyjny, który zmniejsza ryzyko operacyjne i wzmacnia efektywność rynków rozwijających się. Jednakże istnieją również słabe strony tego regionu, które mogą być przeszkodą dla napływu inwestycji VC. W artykule przedstawiono problemy otoczenia VC w Europie Środkowo-Wschodniej, które są w stanie wyjaśnić, przynajmniej częściowo, stan branży VC i jego opóźnienie za krajami rozwiniętymi, jak też daje wiele praktycznych sugestii w celu zwiększenia rozwoju VC w regionie.