

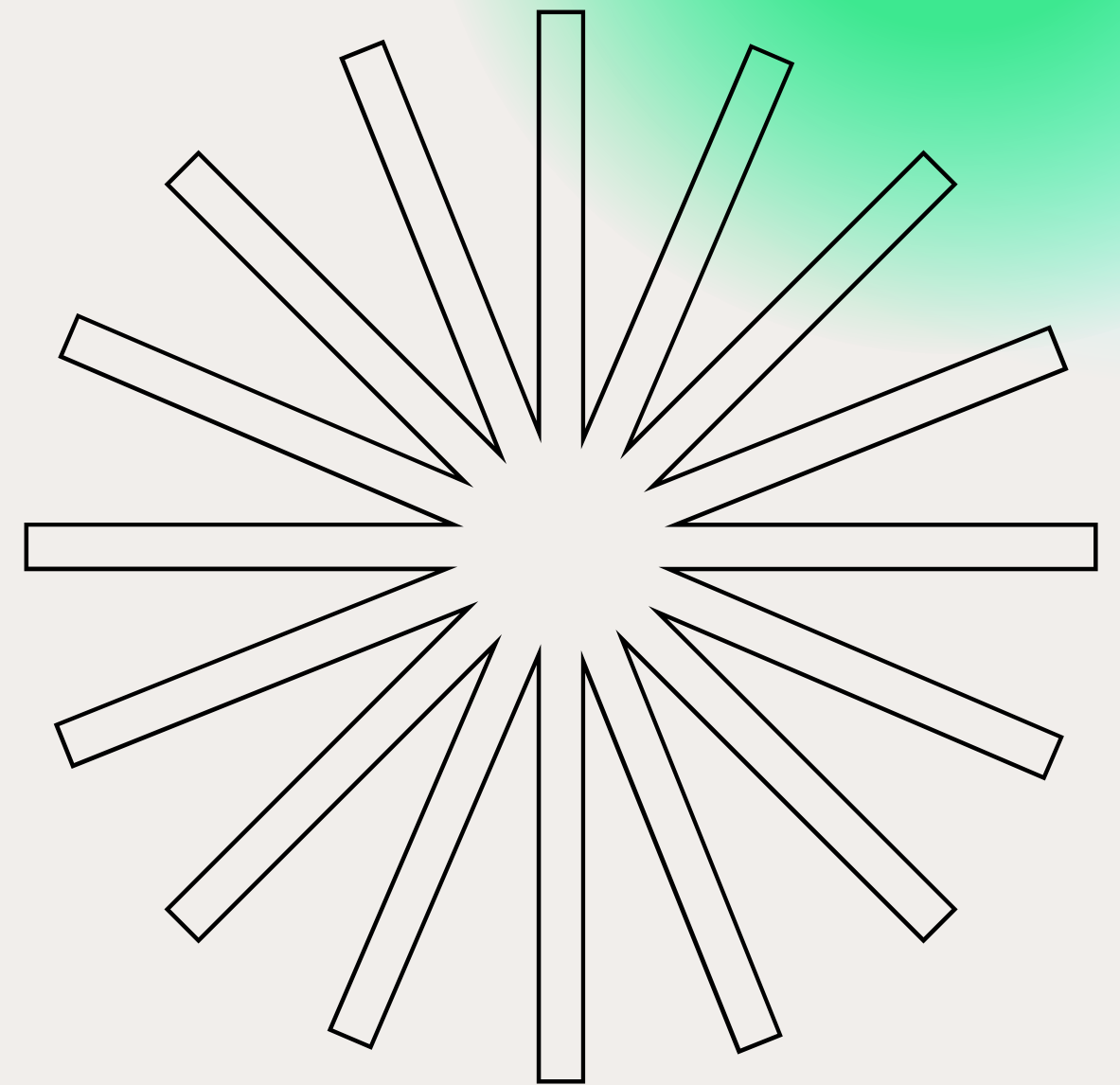
# **Innovation management**

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## CONTENT

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- Financing of innovation management



I.

**Sources of financing of innovative activity** of enterprises are divided into external and own (internal). Considering that enterprises of different forms of ownership (public sector, entrepreneurial, higher education, private non-profit) are engaged in innovation activities, their own sources of financing are directed to all sectors of innovation activity, but with different volumes

II.

**External financing** of innovation activities involves the attraction and use of funds from the state, financial and credit organizations, individual citizens and non-financial organizations

**Internal financing** of innovation activities is carried out at the expense of own and equivalent funds of enterprises



## I.

**By type of ownership,** sources of financing are divided into state and private

**By the nature of attraction —** internal and external. Internal sources include retained earnings and depreciation funds, external sources include attracted funds from banks, funds from strategic investors, government allocations, etc.

**By the nature of the investor's participation in the business —** equity and debt

## II.

Financing of innovative activity can be carried out both with the help of traditional sources and forms of financing (bank loans, leasing), and on the basis of special financing mechanisms adapted to the specifics of innovative business

**The innovation financing system is designed to create conditions for:**

- rapid and effective implementation of innovations in all parts of the national economy
- development of strategic innovation potential in priority areas of development
- creating the necessary conditions for preserving the human potential of science and technology, preventing its leakage from the innovation sphere

**Financial control is designed to:**

- ensure a balance between the need for financial resources and the real possibilities of obtaining them from appropriate sources
- monitor the timeliness and completeness of the fulfillment of financial obligations to the state and local budgets, the rationality of spending material assets and monetary resources of the enterprise, solving problems that arise from the practice of economic relations of the customer with contractors and suppliers

**In world practice, the main forms of attracting investments to finance innovative programs are:**

1) deficit financing:

- state budget loans on a refundable basis
- allocations from the budget on a gratuitous basis
- financing under targeted state innovation programs
- financing of programs from state international borrowings
- joint-stock or corporate financing, in which specific activities of the organization are invested, including
- participation in the authorized capital of the organization
- corporate financing, consisting in the purchase of securities

**In world practice, the main forms of attracting investments to finance innovative programs are:**

2) project financing, in which the program is invested directly:

- with full recourse to the borrower
- with a limited right of recourse
- without the right of recourse to the borrower

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# Venture capital

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Venture capital as an alternative source of financing for private business originated in the USA in the mid-50s, and in Europe it appeared in the late 70s of the last century

The functional task of venture capital is to promote business development by providing a certain amount of money in exchange for participation in a company — a block of shares

The goal of venture capital is to get a high return on investment



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# Venture capital

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The most important subject of the venture capital market — venture funds — exists in several organizational forms:

- specialized independent venture capital firm
- venture funds of large corporations
- small business investment companies

All of them are created specifically to finance innovative business and are engaged only in venture financial transactions. They have their own specifics of the organization and occupy a special place in the system of financial and credit institutions. They are characterized by a high degree of capital concentration: the average venture capital firm in the United States manages funds in the amount of \$70 million

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# Venture capital

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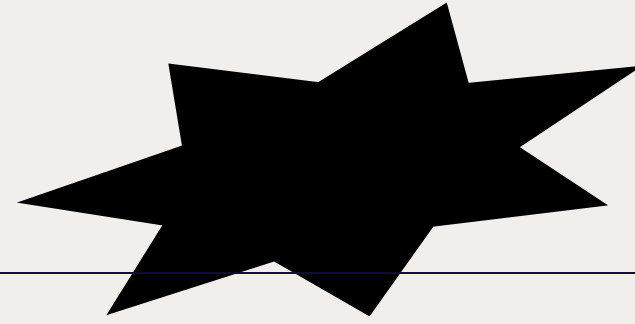
Another common form of venture funds is the funds of large corporations (corporate financial ventures) they appeared in the USA relatively recently – in the last 2 decades

Venture financing by large corporations is carried out in three ways:

- by directly financing the creation of small firms developing new products
- through the creation of wholly owned branches - small venture capital firms
- through mutual participation of corporations in the capital of venture capital firms

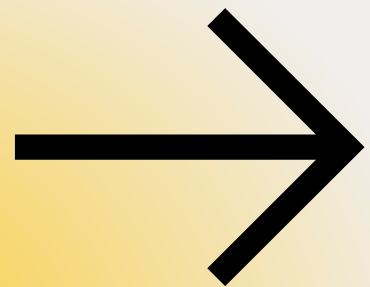
World experience shows that a 10-fold increase in capital over 5-7 years is considered a normally expected result for a European and American venture fund. However, to achieve these indicators, i.e. to turn venture capital into an effective tool for financing innovative projects, as the experience of the USA and Europe has shown, a number of prerequisites are needed:

- a developed technological environment capable of generating and distributing innovations
- an active competitive environment that encourages the introduction of innovations in production and in the market
- favorable legislative and tax conditions that guarantee the safety and profitability of venture investments



# The main sources of commercial financing of innovation activities

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- **Bank loan**

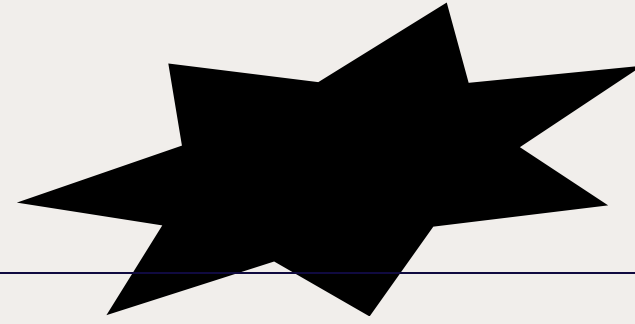
Commercial banks finance innovative projects with real payback periods (the payback period is less than the project implementation period), having sources of return of the provided funds that provide a significant increase in the invested capital

- **Innovative credit**

Innovative banks and innovative funds specialize in issuing innovative loans. Innovative banks are interested in introducing highly profitable inventions and promising innovations

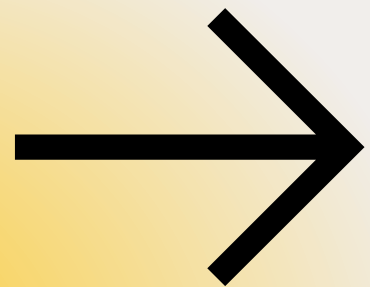
- **Issue of securities**

Attracting investment resources for the issue of securities is called issue financing and significantly contributes to raising funds for large investments of an innovative firm.



# The main sources of commercial financing of innovation activities

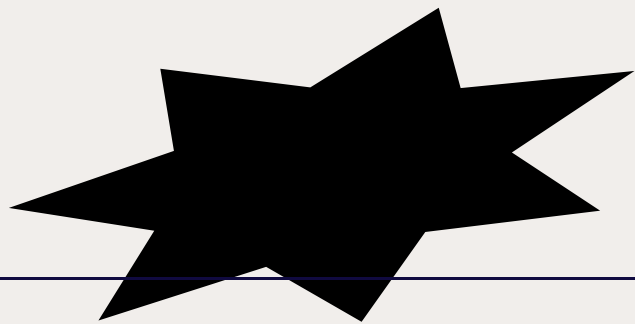

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- **Raising funds for the establishment of a venture enterprise**

The functional objective of venture financing is to help the growth of a particular business by providing a certain amount of money in exchange for a share in the authorized capital of the enterprise or a package of its shares

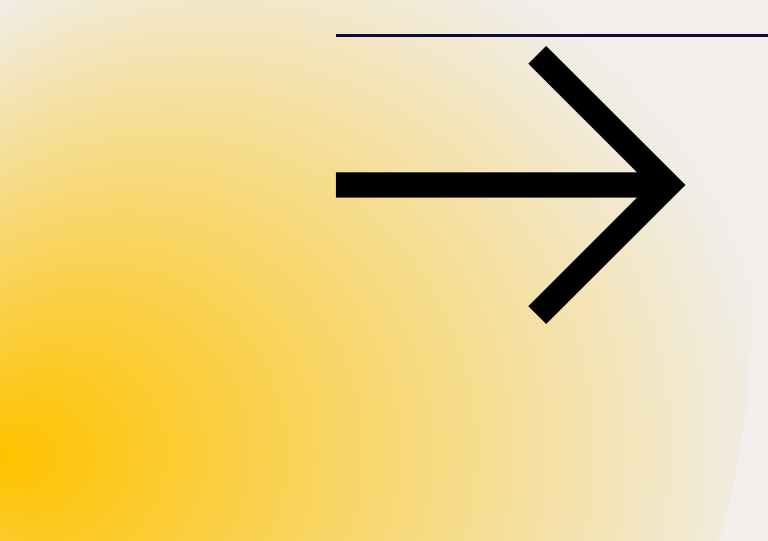

- **Self-financing** can be carried out in two ways: from the profit distributed for development purposes, and theoretically from the depreciation fund
- **Financing of a long-term innovation project from the income from a parallel short-term project synchronized with the expected project costs**



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# **The main sources of commercial financing of innovation activities**

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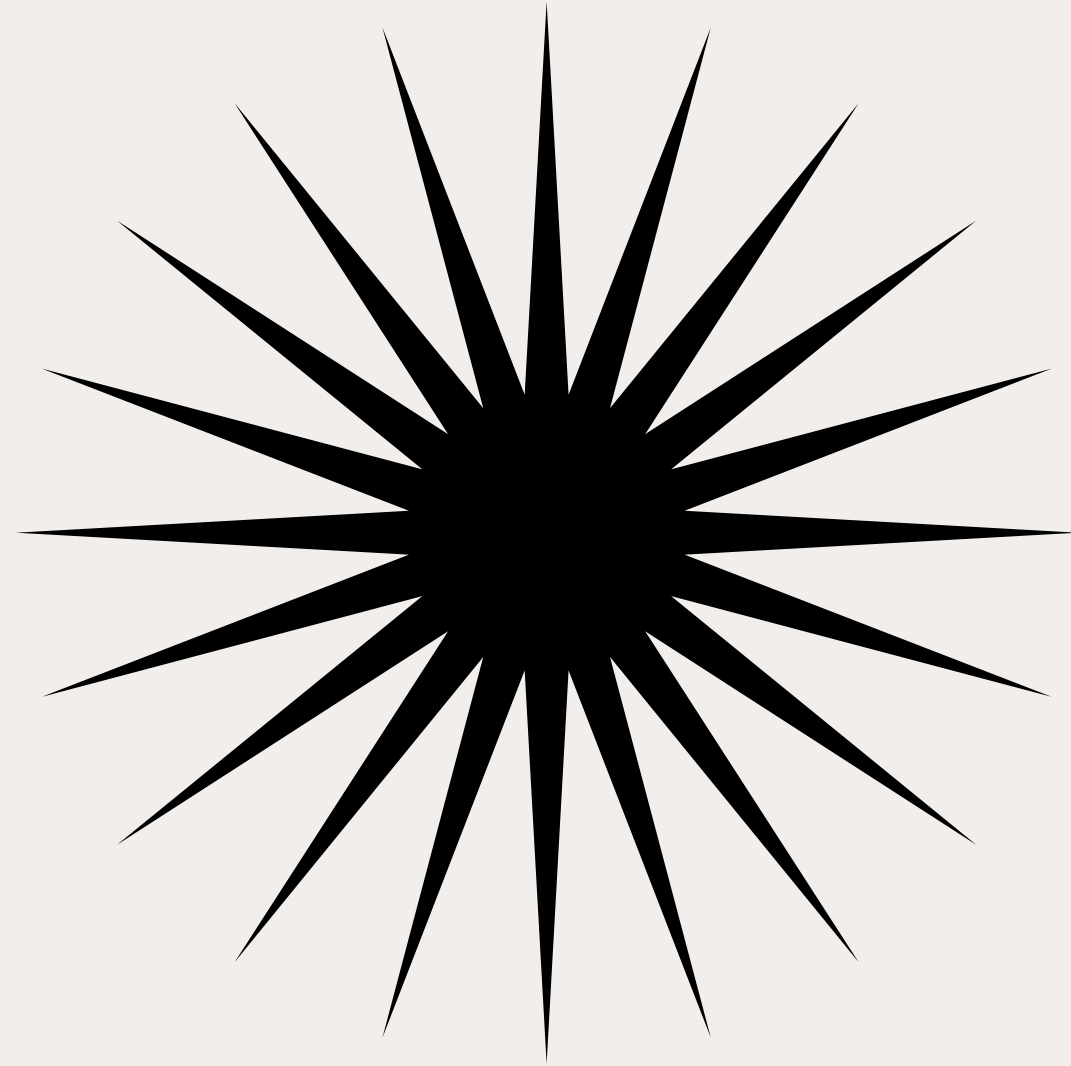


- **Sale of surplus and leasing of temporarily released assets**

The sale of excess assets with the investment of the funds received in the implementation of the project increases the capital of the company

- **Income from the sale of technologies and know-how**





**Thank you for  
your attention!**