THE VENTURE CAPITAL IN MODERN INNOVATIVE BUSINESS: OPPORTUNITIES AND PROSPECTS FOR THE REPUBLIC OF MOLDOVA

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Abstract: *The article provides a mechanism for the application of venture financing of innovation projects in accordance with the phases of the innovation process. The indicators of the effectiveness of combined investment with venture capital were uncovered. It should be noted that there is a need to organize the work of participants in venture investing in a single system with specific performers in priority research projects. Also, this article describes the institutional mechanism of interaction of venture investors with innovative enterprises that have involved venture capital at various stages of development. The directions of attracted investment to create long-term competitive advantages have been identified. A detailed analysis of the key points of the post-investment phase was carried out. There were examined and identified the need and the possibilities for infrastructure-building and macroeconomic conditions for attracting venture capital investment from the Republic of Moldova at the national and regional levels.*
Keywords: *Innovation, venture capital investments, post investment phase, innovative enterprise, venture capital, innovation activities, phases of the innovation cycle, risks of venture capital, venture infrastructure.*
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Introduction

The limitations of traditional forms of financing of innovation activity of economic entities are optimized such innovative form as venture capital.

The analysis of the etymology and of the economic content of the term "venture capital" showed its organic relationship with the financial capital structure while the general thrust is rather heterogeneous. At the time of its occurrence, the financial capital included the following components - banking and industrial capital.

Historically, the financial capital, subject to certain conditions, was only in monetary form. The time has shown that the specificities of this category is that its enrichment associated with the appearance of new financial forms of capital, which in turn depend on the development not only of banking and industrial capital, but other forms and markets (for example, fictitious capital and the stock market).

Currently, continues the transformation of financial capital, turning it into a special type of capital, which includes all kinds of capital, including the commercial capital, formed not only through funding the monopolies, but also through the middle and small capital. The financial capital incorporates elements of this type of capital, such as human capital, resulting in the granting of investors, not just cash, but also economic, organizational and managerial aptitudes (management skills, experience, business, etc.). This occurs under conditions of high uncertainty and risk of funds' loss. The investment of human capital, imply investments of health, abilities, knowledge, skills, human motivation (investor or hired them) at some innovative project.

As a result, there is a peculiar symbiosis of financial and human capital - venture capital, ensuring effective use of innovations and specific needs of the innovation process.

Originally, the meaning of „venture capital", which was closely appropriate with the meaning of the word „venture" (Engl. „venture"), which, on the one hand means the enterprise and, on the other hand, risk. The study of the basic theoretical and methodological approaches to the definition of categories of capital, highlighting its main characteristics, consideration of types of capital in their relationship-showed the versatility and complexity of the concept of „venture capital", that in our opinion is preclude its common interpretation. [6]

Analysis of recent researches and publications

On the basis of the analysis of existing definitions of the term "venture capital", it is possible to identify two major approaches: American and European.

The American interpretation of the notion „venture capital" is narrow. In the United States under venture capital is understood only what works in the early stages of becoming a high-tech company. The National Venture Capital Association (NVCA) of the United States has identified „venture capital" as equity provided by professionals in the field who provide management support for young, fast-growing companies with significant potential competitive development.

From the perspective of the American economist, governor of the „NGC investment", J. Nuechterlein, venture capital is a company's financing in the early stages, as opposed to the acquisition of a controlling stake in the company or its diversification. According to the American approach, transaction type MBO/MBI (management buy-out-redemption of external managers; management buy-in is repurchase internal managers) must not include venture capital. The venture capital is understood as a form of direct investment. [8]

The European interpretation of venture capital is enhanced. In Europe, the term includes all types of equity investments at all stages of the development of small and medium-sized companies that use high technology and is not quoted on the stock market. Venture capital investments in Europe include unconventional buyback transaction type, using credit resources, investments in companies located in non-satisfactory financial situation (problem companies), and the initial public placement of securities (IPO). Thanks to such a broad definition, venture capital investments in Europe sometimes even equated with private capital investments, which are any investments in private closed company. [8]

In the United States deals with the use of credit, investments in distressed companies and IPO decided to no venture capital sector. However, the approval of American specialists that governing interest in working with venture funds developed companies relates only with a reduction in overall risk of investments, it is not quite correct. The high-risk element is stored in the work with developed companies, because in most cases it is associated with the innovations of organizational and management plan. [12]

The aim of the article

This study was undertaken in order to identify opportunities for the development of Moldavian business, especially for new small businesses with promising ideas and low levels of funding. Through the analysis of the experience of European countries and the United States in assisting small businesses with innovative ideas, it is expected to identify possible ways of establishing prerequisites and favorable conditions for attracting investors in the national economy, features of business angels and venture capitalists by creating relevant legislation and public venture funds in the Republic of Moldova.

Research results

In line with this study, we adopted the European interpretation of venture capital by virtue of the specific economic and political situation of the Republic of Moldova. Because risk is innovative financing of enterprises not only in the early stages of development but also of enterprises operating at the stages of the innovation business expansion, restructuring, transformation and diversification.

The venture capital, from the point of view of the author, is financial-credit form ensure innovative interaction between real and financial sectors of the economy, represents the totality of economic relations of economic agents, the formation and utilization of financial resources and entrepreneurial capacities of specialized innovative investor, devoted to the implementation of innovation in order to obtain high profits or other effect.

The analysis showed that with all the variety of definitions of venture capital, there is a problem with the system definition and presentation of venture financing of innovation economic agents interaction real and financial sectors economy. In our view, the study of essence and disclosure of venture capital should be in conjunction with the development of objects about which a venture financing appears, as well as implementing agents. We are talking about the specifics of innovative interactions, managing subjects real and financial sectors of the economy that provides the origin and the development of venture capital relations. In the Figure 1 it is presented a scheme for financing innovative interaction through a phased application of venture capital for innovative processes.

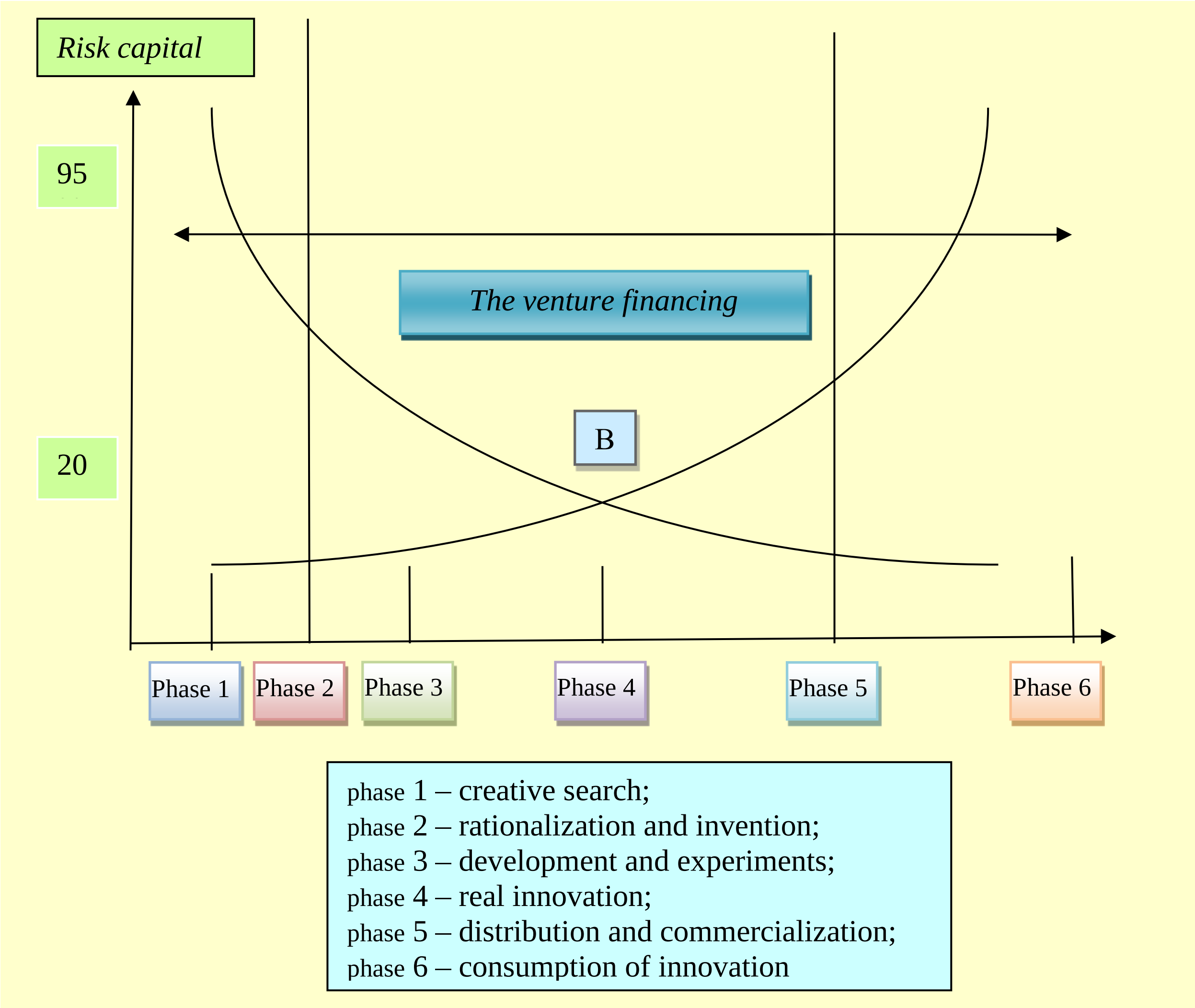

Figure 1. The possibility of a phased application venture form, financial and credit support of the innovation cycle.

Source: adapted by the author Vagizova V.I. The venture capital Management in today's innovative business: opportunities and prospects. National interests: priorities and security. 36 (177)-2012. LLC „Finance and credit" Publishing House, Moscow. ISSN: 2073-2872.

As can be seen from the analysis of the Figure 1, innovation processes are generated in a creative phase of fundamental science, in phases of production and market, are transformed in phases the recycling processes data results in the tradition. Ideally, the result of a venture capital campaign should be manufacturing prototype (point B). From that moment carried out standard algorithm of investment and value analysis and organization of serial production. Right curve shows that the relative costs of venture capital, in case of mass production of two orders of magnitude equal to or greater than similar investments in basic science.

The fundamental principles of venture funding are:

- market mobility and adaptability;
- localization and diversification venture portfolio;

• differential and integrated investment.

The analysis of foreign and domestic practices of venture financing for innovative interaction between economic agents revealed that the real rate of return of the whole venture portfolio in conditions of perfect competition is usually from 39 up to 63% (with inflation at about 4%), which significantly exceeds the efficiency of investment in other sectors of the economy.

The contribution of the funds invested in venture financing company in the middle of the XX century was: financial management - 44%; corporate strategy - 43%; exchange of ideas - 41%; marketing - 33%; discussion of current issues - 32%; selection of managers - 10%; the other is 7%.

Let's look at the key setting of innovation-active countries depending on the proportion of venture capital in the economy. The estimates about the state of venture capital in fractions of GDP in different countries of the world were as follows: United States - 1%; United Kingdom – 0,8%; France – 0,3%; Germany – 0,2%; Japan – 0,05%.[10]

Since innovative projects and programmes are unique, highly risky, high-cost and long-term investment objects, it is recommended to use the mechanisms of their mixed, combined traditionally innovative financing. The combined traditionally innovative financing, the investor will compensate the costs when implementing one of the innovative project proceeds from the previous draft.

The number of innovative projects in the combined system, should be determined by the ratio of budget innovation of an entity for a specific time period to the average cost per project. Based on this evaluation, formed the innovative package that should include a variety of „risk -income" innovative projects, which are essential for economic diversification and efficiency financial and economic indicators, taking into account the degree of risk.

The notion of risk is an indispensable component of the category „venture capital" and directly associated with the notion of expected profitability of venture capital investment. The greater the magnitude of the risk is, that venture investor assumes when implementing an investment project or financing companies, the greater income he has, which he hopes when implementing the financing, and the more shares that venture investor will require as collateral invested in venture funds.

The risk factors may be, as the early stage of development of the business entity, and the overall condition of the development of economic activity in the region and the state of the economy as a whole. The classification of risk venture capital is represented:

Phase: ***The occurrence in the capital of invested enterprises.***

a) The risk of unproduced investment - Incompatibility with the economic, social and technological societies;

b) The risk of alternative capital application - Mistakes in the strategy of innovative development, ignoring the traditions

Phase:***The occurrence in the capital and monitoring.***

a) The risk of future losses of an entity - Industrial, technological and managerial risks

b) The risk of depletion of investment resources - Late score turning innovation into tradition

Phase:***The exit of capital (the realization of investments)***

a) The risk of financial insolvency of venture investment - Financial risk, lack of co-ordination of interests of participants

b) The risk of the need for new investment and exit delays capital - Updated way of economic system

The risk environment investment venture investor, is closely associated with a category of income, embodying the specificity of venture capital, expressed the principle of „risk-income", that, as shown in the table 1, distinguishes it from bank financing or funding for a strategic investor.

When implementing the venture investor, there are the following features:

- firstly, venture financing is impossible without principle „approved risk". This means that investors predict in advance the possibility of losing funds under the high risk funded by businesses in exchange for a higher rate of return in the case of its success;

- secondly, venture financing involves long-term investment capital, in which the investor plans the term investments in average from 3 to 5 years to ensure the prospects of the project, and from 5 to 10 years to make a profit on invested capital;

Table 1. The Difference of venture financing from other types of financing

The sources of financing	Banks	Strategic investors	The venture financing
The equity investment	-	+	+
The loans	+	-	+
The long-term investments	+	+	+
Venture business	-	-	+
The participation of investors in the management of the firm	-	+	+

Source: Vagizova V.I. The venture capital Management in today's innovative business: opportunities and prospects. National interests: priorities and security. 36 (177)-2012. LLC „Finance and credit" Publishing House, Moscow. ISSN: 2073-2872.

- thirdly, risk financing is placed not as a loan, but in the form of a shareholding in the share capital. Newly established entities usually use the legal status of partnerships, and investors are becoming partners with them in the limited size of the deposit. Depending on the level of participation, which is stipulated in the provision of money, risky investors have the right to receive appropriate future profits from company that financed them;
- fourthly, venture entrepreneur, in contrast to a strategic partner, rarely aspires to ownership of a controlling stake in the company. Usually the shares are approximately to 25-40%;
- fifth, the high degree of personal investor interest in the success of the new venture. This follows both from the high risk of the project and the status of co-owner established venture. So, the risk investors are often not limited to provide funds and provide various consulting, management and other services. [12]

These features can be seen in the process of venture financing of innovation the interaction of businesses, which includes several stages (table 2). Their number and the duration depend on what stage of life cycle of innovation will be the venture funding. With each stage venture funding, communicates its institutional type of venture capital market in the sphere of circulation of securities.

Table 2. The stages of venture financing for innovative interaction of economic entities

The title of stage's interaction	The content of stages of venture financing
Before the start	*First stage.* Prelaunch capital-funding required for the preparation of feasibility implementation of innovations. Initial capital-industrial design innovation and production of pilot lot; funding needed to start production
The financing for the expansion and development of business entity	*Second stage* – presentation of the working capital to maintain the initial growth; the lack of profits. *Third stage* – the company's expansion, growing sales, achieved self-sufficiency. *Fourth stage* – transitional funding for the preparation of the company's restructuring into a joint-stock company
The way out of the capital of an entity	*The Traditional purchase of shares* – acquisition of ownership of the new company and transfer it under its control. Privatization is the opportunity to purchase shares of the owners or managers of the company.

Source: Katherine Kampbell. Smarter Ventures: A Survivor's Guide to Venture Capital Through the New Cycle Paperback – Illustrated, 4 Sep 2003, Business Books 2004. – 337 p.

In the domestic economy on the cost-effectiveness criteria of venture capital there are shortcomings that should be addressed. So, if the European venture capital is increasingly capital development system, the domestic economy can be described as a capital restructuring. There is significant scientific and technological separation from the world average level in some sectors. A substantial amount of venture capital investments in developed countries is made on the basis of large industrial enterprises which possess the technological, stock, technical, intellectual, financial and credit support.

Their transfer channels ensure interoperability and harmonization of market needs and innovative features. In addition, the prevailing form of domestic investment will not affect high-tech economic activities, limiting the formation of national competitive advantage.

Among the positive factors for the development of venture investment in the domestic economy should include:

- availability of projects, brought to the stage of commercial use. In some cases running such projects requires a relatively small proportion of own investments, the remainder of the required funding could be loaned funds;
- a significant number of projects with significant export potential, which greatly facilitates the task of attracting the necessary financial resources;
- high qualification of personnel.

At the same time, modern domestic economy present circumstances, limiting the development of venture business in Moldova. Many of them stem from macroeconomic causes, as well as the lack of co-ordination of interests of economic subjects real and financial sectors of the economy. In addition, in many projects, develop incentives for investors, are neglected. Mainly accents are made on the technical merits of innovation, ignoring the interrelationship of the innovation process with financial and credit provision, are not used sufficiently the possibilities of large industrial enterprises for the development of innovative relations in the economy.

The analysis shows that the distribution of projects by areas of activity occurs are directly proportional to the degree of innovation and attractiveness of priority of this industry.

At the same time, the purpose of venture financing of innovation is the harmonious development of all sectors of the regional economy, including consumer market, medicine, communications, electronics, information technologies, Bioengineering-and on this basis already receiving communicative synergies. Given the nature of the business venture, results-oriented budgeting, more revenue compared with alternative directions of capital investments, it should be noted that the venture investor is indifferent to a certain extent, in what sector production to invest. It is important to have a guaranteed income and benefits on their investments. In this regard, the need for harmonization is brewing and a combination of the interests of the development of certain economic activities generating income interests venture investors in the future. To this end, it is necessary to explore the possibilities of a negotiated innovative economic agent's interaction real and financial sector of the economy, carrying out implementation of venture capital for innovative processes.

Thus, innovative processes and their financing through venture capital needed to be further improved, including in the Republic of Moldova, which must be in the following areas:

- the establishment of a center of responsibility for the management of venture capital investments;
- formation of motivation of large and small business entities to implement their innovative capacity;
- the finance and credit, institutional support for innovative interaction between economic entities of the real and financial sectors of the regional economy;
- innovative development of science by region.

A positive moment can be considered the creation of the Agency in the Republic of Moldova on innovation and transfer of technology under the Academy of Sciences, created by decision of the Assembly of the Academy of Sciences of Moldova no. 8 of 29 October 2004, which must accumulate the innovative projects, ready to invest. [7]

The organization of public-private partnership among venture investors, attract private capital in innovation can be solved through the establishment of venture capital funds formed by public and private funds.

There is sufficient evidence of a positive impact of venture capital investments for the development of small high-tech innovative enterprises. These facts provide a catalyst for the growth of portfolio companies, increase sales volume and employment.

European Venture Capital Associations (EVCA) studies showed that 90% of companies in the expansion stage without venture capital would not have survived or would develop more slowly, while 72% of companies in the early stages of development wouldn't come out on the market [11]. Providing investment, order 2/3 venture capitalists assume that post investment phase will last 2-5 years, about 20% are willing to wait for the refund money 6-7 years. The minimally acceptable level of IRR almost without deviation is within 35-40%.

According to EVCA, portfolio companies using attracted investment to create a long-term competitive advantage spend them in the first place: - Research and Development, R&D; -marketing; -training of personnel. It should be noted that companies in the early stages, invest in Research and Development, R&D (so, half received investment companies increased the article costs more than 4 times) and at the stage of expansion is in marketing. Such a layout is logical, because companies in the early stages involved in the development and improvement of products and at the expansion phase the sales are most important. The staff costs in both groups of companies doubled.

Among the most important factors for the increase in the value of portfolio companies, we can distinguish the following four :

- sustainable cash flow generation;
- development of a new product;
- the conquest of the market share;
- the use of high-quality staff.

Moreover, the high priorities among all companies receive the following activities: creating a recognizable brand, optimization and costs control. At the same time, attention to the question of the expansion of the product line and improve the quality of business processes, it was more common for companies in the expansion stage, while in the early stages of more emphasis on the development of business models and improve product quality.

It should be noted that the hallmark of venture investor capital from other sources is non-financial support. During the expansion phase of portfolio companies do not underestimate the value of non-financial support, however, appreciate that the venture investor is the guarantor of their reliability. The combination of financial and non-financial support leads to a significant increase in turnover and profit of portfolio companies.

For companies in the early stages it is natural growth of turnover of 200% in the first year and on average 120% per year over the next three years. For companies in the expansion stage, the rate is lower, but 33%-quite a good result.It is noteworthy that the number of employees increases for several post investment years an average of 46 people, provided that prior to the receipt of investment most companies in early stages is less than 6 people. The profit of companies in the early stages in the first years of life is strictly negative. This is logical, because of high proportion of costs. Portfolio companies at the stage of expansion by the end of the third year from the date of receipt of the investment show a steady increase in profits with 1.2% to 4.4% of turnover [11].

On the change of turnover and profits, many factors are involved, so for a more objective assessment of the contribution of venture investor at post investment stage, let's compare the portfolio company with their main competitors. Nearly 90% of companies that have received investment noted that growth in their turnover was nothing less than competitors, and 57%-that is more, 77% of portfolio companies could make a profit no less than competitors.

Next, take a look on the mechanism of interaction of small innovative enterprises with venture capitalist in the field of non-financial support. In addition to capital portfolio company can expect from a venture investor the following [7]:

- Trust - venture investor ensures counteragents confidence: banks and other institutions, suppliers, customers, etc.;
- Council - recommendation concerning the strategy and development;
- The challenge - is opposition to the status quo, constant striving for the better;
- Contacts - additional contacts with key counteragents.

The preceding information is valid, but not always, due to the fact that venture capitalists can be divided into alternate polarity categories: active and passive.

Passive venture investor receives from companies reports annually or semi-annually, may be entitled to "standby" director and rarely come into contact with invested companies [2]. This is a great option for companies that do not want anybody to interfere in their affairs. However, the degree of involvement of venture investor in the work of company does not determine the wishes of the company, and the investor's position. The principle of passive participation is more often associated with companies in later stages of development. But this is not a dogma, as even in the later stages of inattention to the venture investor invested companies can lead to serious consequences. To avoid such consequences, passive investor, though much less often than active, will receive at least the reports on financial results of the portfolio company. If these results will not suit the investor, it is possible that he will become a passive from active. Generally speaking, in times of recession or bad venture investors seek to play a more active role in the affairs of the company.

However, in some cases, passive approach may be effective. Ultimately, the task of the investor is not the management of the company, but management of private investment. The investment management may allow different approaches. As the practice shows, the passive approach is quite rare. About 6% of portfolio companies in the early stages of development, and 8% of the companies at the stage of expansion, contact with venture capital investors less than once per month. While a significant number of companies doing this weekly [10]. Passive participation is more typical for investment aimed at redemption: in this case, less than once a month, with about one-third of interact venture capital received investment companies .

Active venture investor has quite a deep degree of involvement in the work of the portfolio company. As noted above, a proactive approach is more common. Venture capital has low liquidity. This means that the money invested in venture capitalist portfolio company, usually cannot be removed for quite a long period of time. So, to make a minimal risk and maximal profit, venture investors can only by using a firm that receives the investment. Active investor is a business partner of invested company, someone to whom she could turn for help and advice. Active investors usually are experienced people. Many are familiar with industrial characteristics, some are professional financiers. But most important, that all venture investors have experience in facilitating the development of portfolio companies [9].

The financing portfolio company is complex and not a quick process, as is generally carried out in several stages; each of them has its own peculiarities. When the first money is received, the main task of the portfolio company is achieving results that will satisfy investors and will move on to the next round of funding. Seed funding is characterized by small infusions of capital, which may be friends and family, business angels and venture capitalists, specializing in investments in companies at the earliest stages [5]. This is investing in the idea. The idea, however, must be fantastically good and financial infusions are intended to confirm this. The average size of investment for seed stage-$ 1-3 million, while the venture investor will be able to provide the amount to $5 million, and the need for sizes up to $1 ml can be satisfied with business angels. [5]

It should be noted that for venture investing, at any stage of development the company valuation is an important consideration, because of the value of ideas will depend on financing conditions, that is what amount, in exchange for what share of the company will be provided. The first round of financing is usually required to start the commercialization of the product. Up to this point, the company should reduce the uncertainty inherent in the previous round of financing to a minimum. In other words, it must be created by an experienced or commercial product sample, which should be well received by the consumer. Evidence of a positive assessment can be: treaties on sale „brought" product or agreement of confirmation of this intention. When addressing to the venture investor, the company should have a developed business plan and a clear vision of development and a possible exit route. The size of the investment at this stage varies considerably, but is within \$2-20 million, in exchange for 20-40% of the company. Unlike the previous one, is possible at this stage to the formal procedure for assessing the value of the company. [5]

Distribution of shares depends on its value post-investment. For example, if before of receiving of investment, the company was estimated at \$4 million and the venture investor provides \$2 ml, in exchange he gets 33.3% of shares, calculated by dividing the \$2 million allocated to them on post investment value of the company \$6 million.

But it should be noted that there is an alternative to funding rounds - financing using the „benchmarks". In this case, the venture investor in advance stipulates the implementation of additional funding in the future to achieve certain results, a portfolio company of the so-called „benchmarks". In some circumstances, effectively turns this method, other-traditional rounds of financing [5].

The second and subsequent rounds of funding are typical for companies who have their own ideas and commercialized as technology development, familiarize yourself with the production, marketing and sales, i.e. closely approached to a stage extension. Additional funding for these companies is necessary for even more powerful development. The volume of attracted capital is typically in the range from \$5 million to \$50 million and costs are usually only 10-25% of the company.

Subsequent rounds are characterized by the presence of portfolio company leading position, i.e. the main investor shares of the company and several co-investors. At this point, there is the next trend: the higher the risk is, the higher should be return on investment – it is a fundamental rule of venture capital, and any other investment. For example, for seed stage portfolio company receives \$3 million for 30% of the shares, as a result of the first round-\$20 million for the same 30% and, lastly, in the second round, which is already a preamble to the exit, \$30 million for just 20%.

Besides of using the subsequent rounds of financing, portfolio companies may attract so-called transitional funding. The transitional financing – „financing in the form of a type of short-or medium-term lending companies intending to first register their shares on the stock exchange" [2].

However, the transitional financing may precede the next round of funding. The investors who specialize in this type of financing, prefer „simultaneously with the granting of investment in the form of a loan, obtain, so-called „carrot" – an option to buy part of the shares of the company when it is converted into a public" [2]. Transitional funding is more expensive than a bank loan because it is granted without collateral. As the name implies, the transitional funding is necessary for the implementation of a certain transition, for example, move to the next stage of development or transformation of the company from the private to the public. In the second case, the completion of this conversion, which is the initial public offering (IPO), would be to venture investor a release - successful completion of post investment phase.

Gradual transition from one to another round of funding, ending with a successful output of one or more venture capital investors from the company is ideal, but not the only possible leakage of post investment phase.

Some companies are facing with such unpleasant phenomena as decreasing rounds. Decreasing rounds take place when over time the cost of portfolio company does not increases, but decreases. This may be due to the inefficient work of the company and adverse external circumstances, such as when the public markets are experiencing a rapid decline. As a result, diminished the value of the investor's company, which will participate in future rounds of funding, will pay for the shares less than investors who had invested their money in a time when the company's value was higher. As a result, a significant dilution of capital can occur - a devastating event, as for previous investors and for entrepreneur.

Therefore, to protect the early investors, there are a number of tools to avoid press dilution of capital. Not stopping at these instruments, we will note the following details. Historically, the most popular method is a „weighted average" (the prices are weighted per share of the present and previous funding round) that avoids dilution of capital, and is only effective for small financial investments.

It should be noted that venture capitalists seek to have prior rights upon liquidation, often with a very high multiplier. But such a measure could endanger himself return on investment. Evaluation of the effectiveness of the portfolio company is based on the following instruments: IRR and equity multiplier. The multiplication coefficient characterizes the capital repayment of capital in absolute terms. For example: an investor has invested $2 million, two years later, he returned a $10 million, in other words the project IRR will be 400% and capital multiplier is 5. It must to be note that the IRR is calculated from the date of implementation of investment until the exit of venture investor out of company. Using these indicators at the same time, it is possible to determine the effectiveness of investments [5].

So, a high rate of capital appreciation and low IRR will mean a long period of recoupment of the project, and long term repayment of funds, and, conversely, a high IRR in combination with low capital appreciation is low in absolute terms, repayment of capital in a short period of time. On the one hand, talking about the effectiveness of a venture fund, primarily have in mind internal rates of return, on the other hand, the fund has commitments to the private investors who require return physically tangible assets. So for venture investor is undesirable as an early exit from the company in order to maximize the IRR and excessive delay, aimed at increasing physical refund. A reasonable balance is required.

Comparison with other – is another way to estimate the effectiveness. The comparison methods may be different, and often there are elements of subjectivity. Benchmarking is called objective comparison method. Comparing between the portfolio companies and venture funds, must adhere to certain rules.

Firstly, the companies must work in one sector of the economy. For example, it is incorrect to compare funds, if one invests are in buyouts, and another in the company early on. Secondly, to compare the portfolio companies or venture funds, must to take into account the time needed for obtaining investment or inception respectively. So, venture funds typically invest 3-5 years from the moment of creation and return on investment usually begins at the 4-th year. So, comparing the fund at the age of 2 years, with the fund at the age of 4 years – is completely incorrectly. This is equally true for companies, especially given the pace at which they develop after receiving investment. The assessment of effectiveness and comparison with other companies is built on information. However, the information is required to venture investor, not only to calculate the portfolio company performance indicators, as for decision-making and management investment. On post investment stage, company should approach to data collection and analysis, is no less seriously than venture investor in the process of „thorough examination" [6].

Therefore, the minimum requirement of venture investor is to provide standardized information: accounting reports, cash flow projections and annual budgets. In the case of financing of portfolio company in several rounds, the quality of financial information, in attracting new investors, can play a decisive role, and this is another reason to look carefully on issues of collection, reflection and audit of financial data.

In the part of the non-financial information related to the work of the portfolio company, there are some problems. Firstly, the information it is difficult to formalize, secondly, problematic objectively. Perhaps, the only opportunity for venture investors to receive necessary and truthful information, this is interpersonal contact with company management [2].

Thus, venture capitalists want to trust those who are funding. For entrepreneur – is important to be aware of the plans of venture investor, especially if these plans are linked to the output or the next round of funding. The higher the level of trust is between the management, the more interaction management and portfolio companies have. Professional management-it is the slogan of venture investors, on the one hand, is confirmed by the data of the EVCA rising expenditure on staff development, on the other is a rare post investment stage without replacing the founder. [10]

On this issue there are two polar perspectives. Some managers can be without replacing founder; furthermore, they carry out investments themselves not so much in the project idea, but rather a team of managers, which is handling the project. In their view, a good team can perform the average project, and bad one – can ruin the most promising idea. Other managers believe that the replacement of the company's founder is inevitable, that for each stage of development requires the manager having the appropriate skills . Probably both points of view have a right for existence, since, in practice, have proved their viability. Recommendations of one or another way, as usually, will be based on the details. In first approximation it can be noted that when portfolio company go not so good, it paves the way for the replacement of the head, and that some of the founders, especially with appropriate education, able to grow along with the company, but others will forced to give way to a professional.

Most of the funds involved in attracting additional funding for subsequent stages of development companies, they invite managers, including top managers, which help them in developing a strategy.

Improved management involves setting management accounting, information technology and international accounting standards. Thus, the ratio of financial and non-financial support to innovative enterprises, by venture funds, meets the needs of companies at different stages of development, thereby significantly increase the effectiveness of the functioning of small innovative enterprises, which confirms how comparing enterprises attracted venture capital, with similar, but not using the funds of venture capital and direct investment and analysis of changes of the basic performance indicators funds funded companies: revenue, profit, number of staff.

Venture capital funds are becoming an important support for entrepreneurs by helping them to find partners, suppliers and customers, as well as strategic managers and professionals. The main investment of a venture capital fund shall not be made in machinery or products, but in people who promote the project in the company's management. A statistical study shows that 67 percent of investors regard as a priority, which the management team must be able to carry out a sustained effort; 67% of investors have valued as a priority the market knowledge of the management team; 31% of investors consider that at the first place there are the abilities of entrepreneur's leadership and, somewhat surprisingly, only 28% considered that the main success factor is from investment earnings. [4]

In the European Union, risk capital is regulated only at Community level by Regulation No 17. 345/2013 of 17 April 2013, regarding European funds for venture capital. In other countries, like Russia, Belarus, Georgia, this activity is regulated under other laws, and in Armenia there is a separate law on risk capital. It is important to note that in the European Union there are 26 venture capital funds, half of them being in the United Kingdom.

In Moldova, there is no legal framework for business angels and venture capital. The need to create a legal framework was presented through a concept of law on risk capital, to working group meeting at the Economy Ministry in July 2015. [7]

It based on:

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- The development strategy of small and medium-sized enterprise sector for the 2015-2017 years;
- The National Action Plan for the implementation of the association agreement with the European Union;

The Innovation Strategy of the Republic of Moldova for the period 2013-2020 „Innovations for competitivenessThe authors of the project were determined that the primary purpose of future laws consists of the stimulation of enterprises, in particular innovative SMEs with growth potential by opening access to venture capital funds. In this context, risk capital is viewed as an efficient source of funding and technology transfer, but SMEs are the main beneficiaries of this form of investment.

The main components of the draft law have regulations regarding the activity of venture capital funds, the conditions of creation, approval, and operation of these funds, for the monitoring of their activity, portfolio requirements investment, investment techniques and eligible businesses that apply to a venture capital fund.

If it will be successfully created the legal framework, then local professional investors such as banks, insurance companies, pension funds, etc., will be able to invest the financial resources of over 100 thousand euros in the form of risk capital through capital funds risk in the shares or quotas for the participation of SMEs. At the same time it will create conditions for entry on the capital market of venture capital funds.

Conclusions

The attraction of foreign investments in the Republic of Moldova shall continue to be a strategic action for the State. The importance of identifying new sources of financing, in this case the business angels and venture capital, and creating a legal framework in order to bring them into the country, may greatly improve access to financing for SMEs, with new financial instruments and new opportunities for the development of innovative projects, the increase in the volume of exports, the reduction of the level of unemployment, improving the quality of life, etc.

To achieve this objective it is necessary to develop the skills of local entrepreneurs with the aim of creating long-term strategies to attract funding at every stage of life. In addition, it is necessary to provide assistance to SMEs for the professional implementation of the bootstrapping method, which is very necessary at the start-up stage.

At the same time, the process of creating the legal framework in the Republic of Moldova for the activity of venture capital funds should be continued in a limited time. Major attention should be drawn to the creation of the legal framework for the activity of business angels, because these investors are the transition from start-up stage - bootstrapping to the extension - venture capital, providing shifting to growth stage - institutional investors.

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