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The Economic Importance of Venture Capital as New Funding Alternative with Reference to the Egyptian Experience

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ABSTRACT

The experience of venture capital in most of the developing countries is a new one and its recent results are very limited. Its contribution proportion to the financing of projects does not exceed 10%. It is specialized in financing some certain sectors and not others. Those are less-risk sectors. This paper aims to discuss the concept, forms, importance and objectives of financing venture capital with an indication of the advantages and disadvantages of this new type of funding in light of reviewing some international experiences applied in this regard with reference to the Egyptian experience. The paper handles with the Obstacles facing the development of venture capital institutions and the important rules and policies necessary to support the success of this type of financing in the developing countries. The study has adopted the descriptive analysis method to diagnose this phenomenon and determine its application effects and the benefit from the developed countries experiences. In the end, the research paper proposes a set of conditions and policies needed to support the success of this type of financing in the developing countries especially in Egypt.
KEY WORDS: Venture Capital – the Developing countries- Egypt - investment projects - international experiences.

INTRODUCTION

Funding with all its kinds is considered as one of the most important fundamentals of investment for any economy in any place and at any time. The development of funding tools under the financial globalization requirements and the smooth capital transfer among states has recently become the main concern of financial and banking experts. Among the consequences of that development is the emergence of a new funding pattern differs from the traditional funding in its vision of the risk levels in investments need funding. This pattern is termed as bold, risk or venture capital. It finances investments of higher risk rate than the known average risk. At the same time it contains high profits in the case of success. It is an emphasis of the principle that profitability is highly associated with the risk rate of the investment (Tarek Abdel Aal,Hamad, 2003). The need for that funding grows when tradition funding sources are not available. That type of funding becomes important when the accumulative capital decreases. The effective use of that new funding instrument can improve growth and productivity of any economy. It meets the needs of corporations at the different funding stages. The activity of venture capital has begun in the United States of America and these institutions spread later in other countries with the aim of meeting the needs of investment funding and overcoming the inadequacy of supplied capital with suitable conditions of the existing financial institutions and providing funding for new or high risk projects which do not have growth potentials or high rate.

Several small and medium enterprises in the developed countries have overcome the problems of funding accessibility from several sources as a result of available financial services diversification and the use of modern technologies in the market financing. This helps control the risks and costs in contrast to their developing-countries counterparts where the funding problem still represents the main obstacle against its development and at the evolution and expansion stage. The projects dependence on their own funds as an internal funding source is often insufficient to cover the various needs through the stages of its various projects related to renewable and expanded investments. Therefore, it may have no choice but to resort to external financing (bank loans) conditioned by certain constraints such as (collateral required, the interest rate, the complex administrative procedures, trust) by the financial market represented in the specialized institutions and banks, as well as the lack of transparency and credibility of the information provided about the projects financial status and their ability to pay in the future. Thus, its funding is limited and weak, and does not encourage investment. In light of these difficulties, it was necessary to seek a new funding alternative funding for the dominant conventional financing system through developing the venture capital technology. The aim of this paper is to discuss the concept, forms, importance, and objectives of financing venture capital with an indication of the advantages and disadvantages of this new funding type in light of

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the review of some international experiences applied in this regard with reference to the Egyptian experience, the most important rules and policies necessary to support the success of this type of financing in the developing countries especially in Egypt.

The concept of venture capital financing: A method or technique to finance investment projects with high risk by companies called the venture capital companies (financing with private capital). This method is not based on cash-only, as is the case in the traditional banking financing, but is based on the participation, where the involved company funds the project without a guarantee of its capital or return (the source of risk). Thus risking their own money, unlike the traditional banking system, which refuses to give loans due to lack of collateral. In this case the risk-taking (the investor) bears the total or partial loss in the case of the project failure. The investor contributes in the institution management to ease the potential risks in all its various stages, both during the construction or renovation, expansion and growth to achieve its development and success. In other words, these funding companies are based on the profits and losses share through the (advanced technology - high risk - and promising profits) Therefore, these companies success requires them to be patient for a period of almost three years to ensure big profits (Finnerty, J ,1988) .The venture capital is identified according to the European association as each capital invested by a specialized financial broker in special high risk projects distinguished by a strong growth potential but do not contain at the moment as assertion of getting income or emphasis of recapturing the capital in a certain time; in case is considered as the risk source (Gompers, P. and J. Lerner, 2001). Venture capital is considered as one of the funding techniques but in a special technology and formation as it combines providing cash and providing help in the managing the company in order to develop it (Abdel Bassit, Wafa, 2003).

The venture capital companies collect financial resources to demonstrate the shareholders ability and skills in raising the funds and attract investors, then look for projects requesting this type of financing, then the selection of the best projects suited to this funding. Finally, these companies resale the subscriptions to get out of the funded projects, and raise their subscription once again at the funding market (Gerald Joe, 1998). These companies have achieved remarkable success in the United States and Europe (England, the Netherlands) through the main objective of providing sufficient funds for new institutions or high risk. The venture capital emergence is dated back to the French-origin general "Doriot" who established in America in 1946, the first company specialized in the venture capital in the world "ARD". It was specialized in financing the new electronic companies and these companies growth had remained slow in the U.S. market until 1977. However in Europe, these companies are recent. The European association established the venture capital company in Brussels in 1983. Its profits ranged annually between 250%, 300%. The percentage of financing risk capital estimated 64% of the high-risk projects. All the developed countries have hastened to adopt this method, with varying results among them. Italy, Spain and Germany have failed in this experience (European Venture Capital Association, 2001).

Forms of venture capital funding: funding varies according to the phase where the financing-required company exists. There are four financing stages, namely the phase of capital establishment, capital development, capital of ownership transfer, and capital of the correction. In the first phase, emerging and innovative high-risk institutions- which have great hope of growth and development- are funded. Capital is allocated to cover the expenses of research and experiments and the development of the new laboratory and commercial items. It also covers market commodity testing until the start-up phase and the beginning of production. It is a difficult financing due to the seriousness of the institution probable failure of the institution, which has no legal entity at this phase (Merton, R, 1973). The second phase of capital development is that one at which the project has reached the productivity stage of revenue generation. However, it faces financial pressures make it to resort to external financing sources to achieve the hopes of internal growth (an increase of productive and marketing capability); the external growth (project or branches acquisition, or markets diversification) and the expansion, whose average ranges annually between 10% - 5%. It venture capital includes as well, the two phases of project's development and maturity. Risks tend clearly to decrease, and self-financing plays a clear role at this phase. At the third phase, i.e. capital of ownership transfer, funding used funding whenever there is a change of the project owning majority into a new group of owners, or convert an already existing project into a holding financial company aims to purchase the existing projects (cases of death - accession). This phase includes also granting the company loans for new partners to ensure that there is no activity obstruction. After meeting all financial obligations, ownership is transferred to the investing partners in the subsidiary company (Hellmann, T. and M. Puri, 2000). Finally the fourth phase which is capital correction is allocated to projects already existing, but facing special difficulties. They have the self- potentials to restore their ability and activity, but they need financial revival in order to be put in order, and anew resettle in the market and become able once again to achieve profits (Rwinh Abdel Samie, and Hijazi Ismail, 2006).

The importance and objectives of venture capital: In the contemporary economies, the venture capital institutions along side with banks are considered as one of keys for the sustainable economic development because of its continued positive reflections on the national economies. It significantly contributes to funding projects; their growth and development. These projects have a role in producing goods at the local and international levels. Specially, without the financial broker, these projects may face difficulty or impossibility in providing the necessary financial cover. The venture capital is considered as one of the main components of the capital market. The venture capital institutions play an effective role in funding corporations as they provide them with funds, expertise and modern methods of administration, organization and merging their money with those of the funding institutions (National Venture Capital Association, 2002). This is what achieves incentive funding for these institutions to rise towards the horizon and good profits in contrary to the indebted funding method surrounded by the risks of payment, interest rate and other burdens such as guarantees problems and others. Therefore, several countries including the USA have paid prominent attention to the venture capital in order to meet the burdens on its shoulders. Thus these institutions were able to achieve quick growth, their objectives, provide the necessary funding for more than 2000 corporations annually through more than 1000 venture capital institutions (Abdel Basset,Wafa, 2003). The report of the organization of cooperation and economic development indicates that the global industry venture capital provides a funding cover for projects with value exceeds $ US 150 billion annually at the whole world. The investment volume of the venture capital institutions in the USA reaches about $ US 35 billion in 2004. Thus, the venture capital institutions appeared in the sight as a necessary profession to finance development projects and increase the economic growth particularly in the developing countries.

The venture capital aims to overcome the inadequacy of supplied capital with suitable conditions from the existing financial institutions and provide funding for the new high risk projects which have growth potentials and high rate. Therefore, the venture capital is a funding method for the unable companies to find funds through issuance of public share or debt market usually because of the high risk associated with their activities. These are long-term, illiquid and high risk investments but achieve relatively high returns the invested in company is sold (Manigart S. and WV Hyfte, 1999).

The importance of venture capital institutions are: supporting the economic reform programmes in the countries that apply the economic reform programmes which rely on privatization of the public sector. They need special capitals provided by the venture capital institutions which are ready to bear the risk. Providing the support for the public sector institutions transferred into the private sector and need technical and financial restructure. These institutions play a vital role in providing necessary funding and technical and administrative expertise for that sector (Romain A. and B. van Pottelsberghe, 2003). It contributes to curb the inflation effects as it provides the necessary funding for the economic projects without being extravagant in creating money or granting banking credit. These institutions work to mobilize capitals and direct them towards the productive investment (Atef Hassan Al-Nakly, 1999). The new institutions support of the natural field of the venture capital institutions activity represent as they provide technical, administrative and even support and follow up of the new institutions particularly in their beginnings. They provide funding without guarantees or restrictions on the funding itself in addition to the efficiency of the project idea and the effectiveness of its people. This is a very important task for these projects particularly in the developing countries. The venture capital institutions contribute as well in providing the financial, technical and administrative support for the stumbling corporations and attract investments as they are partners to these corporations. Thus, they are keen on the financial and technical follow-up necessary to put the corporations on the right track. This is necessary to encourage investors and let them fell safe of the investment in order to benefit from the expected capital profit ahead (Ortum, S. and J. Lerner, 2000).

The advantages and disadvantages of venture capital: Among the most important advantages achieved by the venture capital are: increase of the project's financial resources due to the contribution of the risk-takers with a capital share; follow-up the projects; provide advice and guidelines for them in all fields and provide technical and administrative support for the projects. The venture capital company is a partner to the institution original owners, and takes profits percentage ranged between 30% - 15%, in addition to 2.5% for annual administrative expenses. It also bears part of the losses when they occur. The practical, technical and financial support is beneficial to the company and helps ensure its success. It opens the way for long-term participation when the company is capable of growth and production. This is not available in the short-term debts (Sapienza HJ, 1992). The venture capital company has the opportunity to choose a promising project. Many new projects are high risk and expected high profits as well as (Abdullah, Ibrahim, 2006). One of venture capital funding characteristics is that it occurs in stages and not all at once. At the end of any stage, the beneficiary seeks anew the taxpayer, and this is a guarantee of the investment sincerity and the display of the work results. The taxpayer can distribute funding on several projects to compensate losses when they occur, along with the partner monitoring so as the project can avoid engaging in adventures of undesirable consequences. Moreover, this type of financing is able to fund high-risk projects which only owners of high financial capability can perform with compensating this risk with high returns. This type of financing also helps expand the ownership base, by attracting many investors, and financing other new projects through the higher capital revenue. In addition to its major role in financing small and medium enterprises, particularly during the establishment phase and when they do not possess the adequate funds and banks were reluctant to provide loans without collaterals (Marshall, J and V. Bansal, 1992). In contrast to the previous advantages, venture capital may represent a certain burden to the establishers by rights generated to the taxpayer because of participating in the project, such as participation in decision-making, and intervention in directing the course of the project. Furthermore, the project requires high amounts of the taxpayer to recover the shares, in the case of the project successfully (Tykvova T., 2000).

Experiences of some countries of the world in the venture capital: The venture capital institutions have a prominent importance in several economies of the world countries. This paper reviews some experiences of these developing and developed countries in this concern to identify the economic effects whether in selecting the funded projects or following up and taking care of them.

The experience of the United States of America: The venture capital company is characterized in the American experience to be specialized in the promising and emergent companies field. It selects distinguished sectors with high-growth opportunities like that of technology. In a study of 500 venture capital funded American institutions over four years and about 80% them are operating in the technology sector as compared to a similar number of self-funded institutions. The results as shown in Table (1), indicate clear supremacy for the venture capital funded companies over the self-funded ones in all aspects with the exception of little difference in the case of creating a more efficient labor between the two types of projects.(Abdul Basit,Wafa, 2003).

Table (1): a comparison between venture capital funded projects and self-funded projects in the U.S.

Comparison	self-funded risk	projects funded venture capital
Create a more efficient labor (%)	+ 59 %	+ 56 %
Employment per year (%)	- 3 %	+ 25 %
R & D expenditures per year (%)	+ 33 %	+ 67 %
Annual investment rate (%)	+ 9 %	+ 35 %
Annual productivity rate (%)	+ 5 %	+ 12 %

The study carried out by the national venture capital association (NVCA) has found out that during the 1989-1993 period the average annual growth rate of the venture-capital financed projects' sales reached about 41% against 2% for the other projects and about 5% for the total US economy. Seventy percent of the new corporations' capitals belong to venture capital institutions against 6% only for the founders and the rest belongs to financial institutions or general investors for the rated companies in the stock market. This affirms the strategic role and effectiveness of the venture capital institutions in supporting the projects and the whole economy.

The European Union experience: The study conducted by the European venture capital association included about 500 companies in twelve European countries financed by the venture capital against the same number of other non-financed projects by the venture capital as a comparative study. The results are as follows (EVCA, 1996):

Table (2): A comparison between the venture capital financed projects and the self-financed projects

Comparison	Venture capital financed projects	Self-financed projects
Business figure developed (%)	+ 35 %	+ 14 %
Results of activity pre-imposed taxes (%)	+ 25%	+ 17 %
Investments volume development (%)	+ 27%	+ 11%
Loans (%)	+ 14 %	+ 13 %
New employment (%)	+ 15 %	+ 2 %
Market value (%)	**+ 36%**	**+ 15%**

Table 2 shows the venture capital financed projects exceed the self-financed projects in all aspects of the comparison with the exception of little difference in the case of loans between the two types of projects. The early mentioned association (EVCA) concluded results that give preferential to the venture capital institutions against other funding institutions by its study conducted during the 1998-1993 period. It included more than 500 small and medium projects. Its results compared to a similar number of much bigger companies in Europe. The results indicate that the small and medium projected financed by venture capital are better than the results of the much bigger 500 companies according to certain standards such as (EVCA, 2001):

- The pre-taxation results: the annual growth which the small and medium projects recorded in their results before imposing taxes reached about 27% while the major projects recorded only 17%.

- Invention: the invention ability estimated according to the spending rate on research and development to the sales volume reached about 8.6% in the small and medium projects while it did not exceed 1.3% in the projects of much bigger size.
- Sales volume: the growth rate figure of annual businesses during the five years of the study duration for the small and medium companies reached almost 35% while it did not exceed 14% only in the companies of much bigger size.
- Creating jobs opportunities: the study concluded that the annual use rate in the small and medium projects reached about 15%. It is a very good rate as compared to the major projects rate estimated 2% only.

The French experience: The study conducted by the association of French investment capital (AFIC), and according to the Bank of France report, a group of institutions was selected, of which 38% work in the technology sector, such as electronics, information, where 30% of these institutions established in 1990, and the rest established since 1980, employing between 100-500 workers. The study (AFIC) concluded that the venture capital institutions pay special attention to the research and development activities as their research and development spending estimated about twelve folds of the other projects. Part of these institutions is venture capital funded and the other part is not. The comparison results between venture capital funded and not, as shown in Table (3). It is clear from Table (3) that the projects financed by venture capital are much superior to those funded in other ways (Abdul Basit, Wafa, 2003).

Table (3): Comparison of venture capital funded projects and self funded projects in France.

Comparison	non-funded risk capital projects	projects funded with capital
Development turnover (%)	+ 5,3 %	+ 34 %
Evolution of the volume of exports (%)	+ 12 %	+ 67,8 %
Evolution of the volume of investment (%)	- 4 %	+ 51,3 %
Evolution of the volume of employment (%)	- 3,4 %	+ 19,9 %
Development of middle-income rate (%)	- 3,5 %	+ 5,4 %

The Egyptian experience: The activity of the Egyptian venture capital market is relatively new as it began according to the issuance of the money market law no. 95 for the year 1992; which is considered as the first legislation organizes the activity of companies working in the field. In 1996 a ministerial decree no. 935 for 1996 was issued; which adds the investment funds to the activity field of venture capital. The total number of venture capital institutions reached by the end of 2005 about 16 institutions; of them are 14 venture capital companies and two are in the form of direct investment fund. Below is a display of the activity of these two types (Mona Kassem, 2000):

Venture capital companies: the executive regulations of the money market law no. 95 for 1992 includes a definition of the activity of venture capital says “the activity of companies issue or support securities; provide technical, administrative services or the stated services in the projects and establishments and their development so as to become venture companies or recommend shares when the companies are of high-risk ones or suffer lack of funding and its subsequent long investment cycle”. The law included the investment guarantees and incentives no. 8 for 1997 the activity of these companies within the activities of which enjoy the stipulated guarantees and incentives in the law such as five-year tax exemption. The venture capital companies finance the high-risk investment projects; the horizon of their growth is highly potential. The venture capital companies are concerned with new high-risk projects and the stumbling existing projects. Though participant the risky projects, the venture capital companies provide financial, technical or administrative support till the project overcomes the reasons for its stumbling and achieves high returns of which the company sells its share to achieve profit suitable to the risk it has faced.

Direct investment funds: The direct investment funds venture into companies’ enrolled and non-enrolled securities in the stock market at the first stage of its life and in companies need employment and financial restructure in order to achieve a high value surplus in the future, particularly if these companies are included in the stock market. The funds provide funding in the form of projects property. These projects are distinguished with fast growth and the technology companies in turn of having a surveillance sort over the company’s management on the part of the fund. The ministerial decree no. 935 for 1996, which organizes the activity of direct investment funds, stipulated several conditions including mostly important the fund capital is not less than L.E. 10 million and the ability to invest in companies by a higher share rate than the rate allowed for other funds and by a rate estimated 25% of the funds’ money as compared to 15% of the other types of investment funds (companies funds- banks and insurance companies funds). Below is a display of investment development in the venture capital market in Egypt as shown in the following table:

Table (4): venture capital companies' investment development in the venture capital market (L.E. million)

company	2002	2004	2006	2008
National Cairo for investment and securities	15	24.1	22.86	22.28
International trade company for investment	-	41.2	61.6	83.8
Al-Ahali for development and investment	-	-	107.79	130.81
National youth company for investment and development	56.4	78.1	90.3	93.4
Misr Exterior	-	-	37.26	54.12
Gulf company for financial investments	0.42	1.99	-	-
American-Saudi company for financial investments	**3.0**	**3.0**	**1.99**	**1.99**

Source: public authority for money market, sector for calculation experience, financial analysis, financial lists and clarifications evaluated by the above-mentioned companies

In light of that the following results are concluded:

- The cherished end of the venture capital exists in the venture capital market, estimated almost L.E. 386.5 million by the end of 2008. This investment size is inadequate to meet the funding needs of the emerging or stumbling companies whose funding relies on the venture capital institutions because of the huge difficulties they meet in the major traditional funding institutions.
- Modesty of the former investment size in the venture capital market as the investments of some of them focused on five companies and some focused on one company only.
- The comparison of the former investments size, it is notable that there is a relative decline for investments in the venture capital market. The investments of the international trade company declined from L.E. 83.8 million by the end of 2008 to reach almost L.E. 79.2 million in the first quarter of 2009. The same thing is applied to Misr exterior company whose investments declined from L.E. 54.1 by the end of 2008 to L.E. 51.3 million by the end of second quarter of 2009. The investments of national Cairo for investment slightly declined from L.E. 22.86 million by the end of 2006 to L.E. 22.28 million by the end of 2008. The American-Saudi company for financial investments declined, which is the only represented company in its financial lists as a venture capital company, from L.E. 3 million by the end of 2004 to L.E. 1.99 million by the end 2006 as its contribution shrinks from 74.9% to 49.9%.

The above-mentioned results affirm the importance of encouraging the venture capital market in Egypt and give it the necessary and adequate care. Furthermore, difficulties facing it should be overcome or reduced as they impede its growth and activity. As such it can perform its important and necessary role in supporting and raising the emerging and stumbling projects in a way that achieves better and more effective results which contributes to push the development engine forward.

Evaluation of venture capital companies performance in Egypt: The activity performance of venture capital companies is still weak in Egypt. They had started their activity after two years of the issuance of money market law. They are currently numbered 16 companies of which 9 companies are enrolled in the stock market. They are mainly securities companies but included the activity of venture capital among their activities to obtain tax advantages. A few numbers of them works in the field of venture capital activity in the concept of restructuring the stumbling companies. As for investment in the communications and information technology, two companies only work in that field. The venture capital activity in Egypt faces several obstacles related to the economic atmosphere in which they work (Abdul Basit, Wafa, 2003). These obstacles include the main work of the venture capital companies in the advanced countries is to be engaged in selecting and funding promising ideas in the field of advanced technology to turn them into projects. This form is not available as Egypt is a country to technology is transferred and most displayed ideas are not built on scientific abilities in new and repeated fields which has no business vitality. These companies lack as well the qualified cadres to assess the ideas submitted to them. The second field of the working scope of these companies is related to enter in the restructure and reform of the stumbling companies to raise them once again in the market which entails a time plan between purchasing, reforming and selling could last for ten years. Meanwhile, shareholders in the venture capital companies are among the younger capitalists who are looking for quick profit and non-risk in companies whose reform requires long time. Furthermore, the venture capital companies contribute to companies in order to realize certain purposes then resell them in the stock market. However, the current slump of the Egyptian stock market makes it difficult to fulfill this task.

Obstacles facing the development of venture capital institutions: There is no funding or investment institution is free of facing difficulties impede its quest to realize its objectives particularly if it is in the early beginning of its investment life. The venture capital institutions are expected to face several obstacles. Among the main obstacles which they face are obstacles related to them per se and others are related to projects and the market in which they work.

The self-related obstacles facing the venture capital institutions are: the inadequacy of professionally specialized officials at these institutions. This is the factor dictated by the requirements of financial engineering which supposed the existence of experienced and efficient administration as the venture capital institutions provide non-financial services. The bankers and accountants have an important role in providing the financial and accounting analyses (Baumol, WJ, 2002). However, they alone do not form the ideal administration team to manage the venture capital institution because of the difference between the fields of funding and consultations and the field of industry and technology. The project and whole market related obstacles are: lack of efficient projects which venture capital institutions can manage. The projects owners suffer from the availability of technical element with the scarcity of business and administrative element. Therefore, they submit bad plans that cannot be developed (Ueda M. and M. Hirukawa, 2003). They may try to implement non-promising projects do not suit the modern technology and has a weak economic return in the future. Therefore, it is expected that the venture capital will witness scarcity in the good projects which it desires to support and finance. It is notable that a number of projects the number of accepted projects is largely less than the submitted projects. This entails the contribution of research centers to present ideas and suggestions which have a good economic return besides the establishment of consultations points for the new projects as well. They will facilitate the selection of an idea for a new continued industrial project. The profession of venture capital faces other obstacles like resistance of expanding the financial disclosure of the projects; and fear of losing its independence (Berger AN and GF Udell, 1998). Thus these companies usually prefer to maintain certain independence and hence they tend to prefer borrowing to partnership. The analyses related to finance these projects structure prove that they are more to funding through banking loans compared to other ways competitive to banks. This entails changing the industrial culture of the projects owners by trying to spread the culture of open collective partnership or the collective project spirit (Engel, D., 2002). There are some obstacles related to the nature of prevailed investment behavior in the stock market. The conservative investment behavior represented in the concept that projects on which investors are keen should achieve actual positive results. The economic circumstances are clearly reflected on the activity of venture capital. Whenever slump prevails and the stock market hit by crises, projects tend to be diminished. Investors then prefer short-term investment which is not suitable to the long-term emerging projects (Davila A., G. Foster and M. Gupta, 2003).

The conditions necessary for the success of the venture capital companies in developing countries: the developing countries should provide favorable conditions for the success of venture capital institutions and for development of their activities to include these terms on the legislative, political, economic aspects. The higher the risk is, the more reluctant investors for investment are. In addition, it is necessary to encourage the establishment of venture capital companies, regardless of its founders' nationality (Engel, D. and M. Keilbach, 2002). It is necessary as well to support partnership methods with the foreign venture capital institutions, particularly those possess high technology. Furthermore, it is necessary to establish centers for research and training to help finance emergent projects, provide consultations and follow-up their activity. It is necessary to provide an information base for investors in all aspects of economic activity (Liew Soon Bin, 2000). In addition, it is recommended to establish market securities which deliberate shares and securities for these companies. The developing countries should provide assistance and support to these institutions and encourage the private sector to create this kind of companies in order to overcome the various difficulties facing their activity. These difficulties include low income and high risk. The developing countries should support these institutions in various ways, whether directly or indirectly. The developing countries can particularly provide tax incentives and regulatory requirements governing the work of these institutions. The developing countries can ease the establishment procedures of such institution by including them in the commercial law of each country. The state should give special care for these institutions through distinguish them in the special taxation treatment due to the risk size they face. The income that the venture capital institutions may gain should not subject to tax. In addition, the shareholders at the venture capital institutions should be fully exempted from subjecting to imposed taxes on the gross paid them from those institutions under certain conditions. The state should provide the suitable legislative atmosphere and environment and encourage the profession of venture capital provided non-intervention in the movement of its mechanisms. Regulations and rules should be simple not complicated ones to achieve further safety in the venture capital institutions.

The success of venture capital institutions, administration should be separated from investment and the state should intervene positively for the sake of venture capital through the governmental institutions that ensure the provided funding to the emerging projects (Van Horne, James .C, 1986). In addition, each country should create to common or public funds for risk capital as a form of support for these institutions, in line with those established in the United States of America in 1957, and Germany in 1995, Finland in 1994. Banks, financial institutions, independent investors, insurance companies, pension funds can play a vital role in the development and increase of the effectiveness of venture capital companies, to meet the financing needs, which the conventional finance is unable to meet as a result of the risk high degree surrounding it (Hellmann, T. and M. Puri, 2002). In addition, the state should contribute to provide a funding coverage necessary the serious projects either the emerging projects or those which experience certain difficulties. For example, the experience of the united German state; the social fund for development in Egypt; the development bank for the small and medium projects affiliated to the French government besides the establishment of common and public funds for venture capital. Further examples are the role of banks and investment institutions and regional institutions the work on developing the venture capital institution developing the venture capital institutions. These various investment institutions are considered as the main pump for the capital of the venture capital institutions. Thus, they occupy an essential role in supporting and developing the profession of venture capital. Finally, there is the role that the educational institutions could play in developing the profession of venture capital by providing them with specialized cadres in the field of venture capital (Kortum, S. and J. Lerner, 1998).

CONCLUSION

The experience of venture capital in most of the developing countries is a new one and its recent results are very limited. Its contribution proportion to the financing of projects does not exceed 10%. It is specialized in financing some certain sectors and not others. Those are less-risk sectors. This is attributed to the weakness of professional competence, lack of effective techniques to control the high-risk, the growing forms of corruption, lack of confidence, as well as the lack of transparency and credibility in the information provided on the financial conditions of companies, and the weakness of financial markets, political and economic instability, absence of democracy, and non-observance of human rights in most of these countries. The venture capital institutions are keen on selecting the projects to support and finance and remain as an active positive partner till they realize their determined goals of development and growth. More than 80% of the small and medium projects, in the experiences of some investigated countries, cannot emerge or witness such quick development without the venture capital. The results indicate that the venture capital financed projects outperformed those self-financed projects. This emphasizes one again the importance and effectiveness of funding through the venture capital.

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