Sources and funds for development projects

Many innovative projects are financed internally from budgets set up for that purpose and derived from the company's operating revenue.

However, from time to time it may be necessary to seek additional funds to carry through a development program where the capital needed is beyond the scope of the current budgets.

The funding of projects is one aspect of the company`s overall business strategy and the source and application of money is part of that plan.

Broadly, funding and financial assistance can come from four major areas:

- Professional lenders and investors
- Grants from government bodies
- Interested parties
- Private, non-professional investors.

Professional lenders and investors

1 class: those who interested only in lending money (bank): can provide money in overdraft facilities (small sums and short-term period) – simple to arrange and comparatively cheap.

BUT if the bank sees fit it may demand instant repayment or part-repayment and long-term loans – can be arranged for periods up to 30 years, they vary from bank to bank and interest charges will be several percentage points above bank base rates.

Professional lenders and investors

2 class: those that lend money on the basis of making an investments in the company (venture capital fund) exist to invest in industry by making money available for promising ventures in return for interest payments on the capital advanced and a share of the business. Money comes from man sources (insurance companies, pension funds and investment trusts. The primary interest of venture capital funds is those companies with high prospective growth rates not as yet floated on the equities market. They will look at proposals with high expected margins and large markets.

Stock market

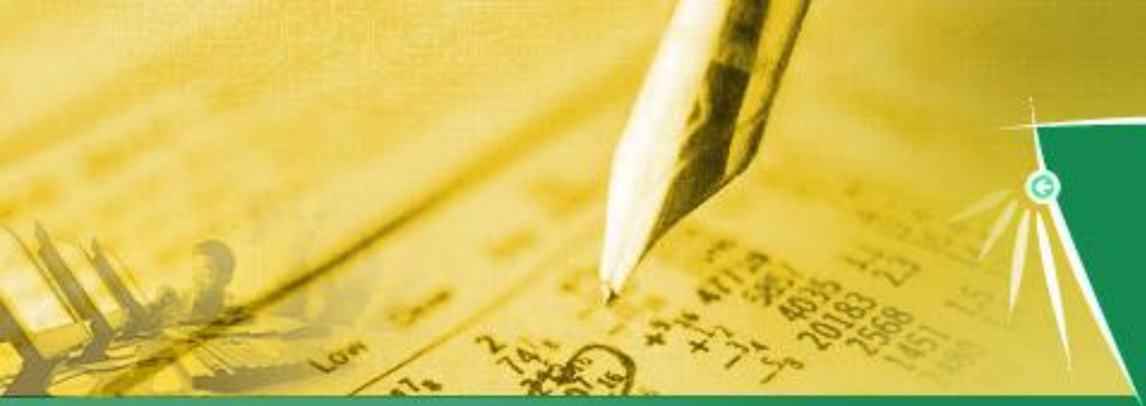
can also be raised through the stock market: if a company has grown sufficiently to make it worthwhile becoming publicly quoted, then capital can be raised through floatation. The initial cost of “going public” can be high and must be taken into account. For companies that are already quoted right issues are an attractive proposition: under this arrangement existing shareholders are invented as of right to buy additional shares in proportion to their existing shareholding.

Grants from government

Government should provide grants to enable industry to develop, modernize and innovate in areas that are in national interests. Usually can be involved some schemes to encourage the development of innovative technology. Special schemes exist to promote development work in key technologies, they tend to run for several years and new ones are introduced as earlier schemes come to an end.

European Commission sponsors

- ESPRIT, European Strategic Programme for research and development in information technology
- RACE, Research and development programe for advanced communication technology for Europe
- SMART, small Firms Merit Award for Research and Technology

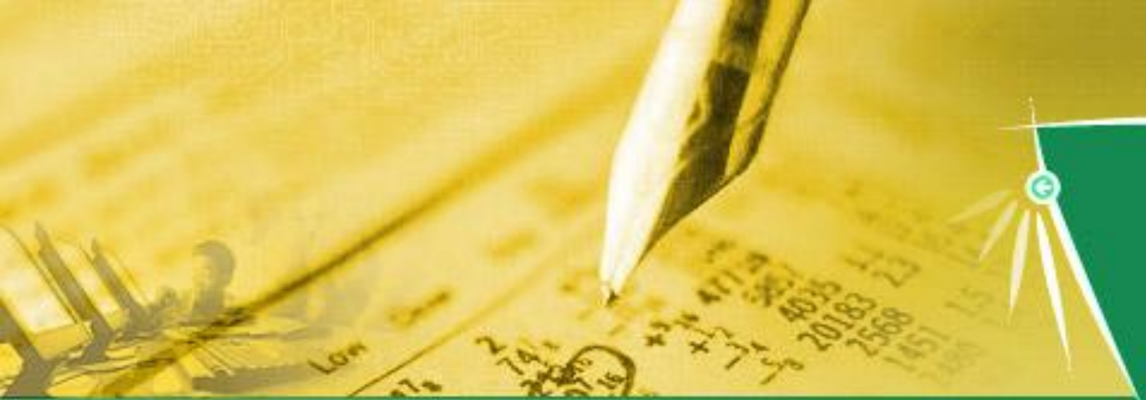


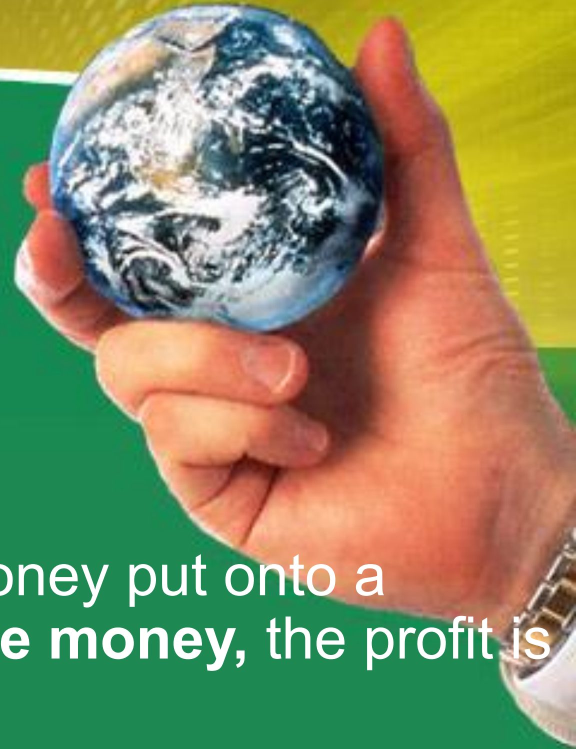
Interested parties

Organizations that are potential customers may be prepared to finance some or all of project development. They may be willing to sponsor basic research but a commercial or potentially useful end must always be in view. In the public sector the defense ministries are among the largest purchasers of advanced technologies.

Non-professional lenders private investors

- private investors
- employees
- personal friends and contacts.





Precept of investors

- It should be made clear to all involved that money put onto a project to create something new is **speculative money,** the profit is not guaranteed and it could all be lost.

- Private investors are much more used to the concept of risk money and may well favor backing new development work in return for share of profits as an interesting and possibly more profitable way of investing surplus cash. (usually there are tax incentives and even full tax relief).

- For a large projects could be created a syndicates of businessmen and investors

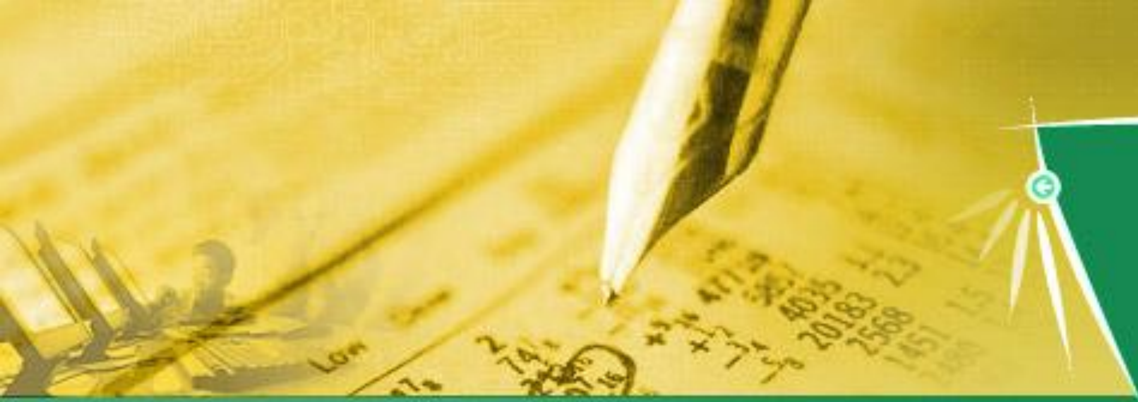
Innovative project life-cycle

- **Pre-investment phase**:

1. Pre-investment researches and planning of a project
2. Documents development and preparation for project implementation

- **Investment phase:**

1. Bargaining and contract concluding
2. Project realization
3. Project shutdown



Pre-investment phase:

<u>Pre-investment researches</u>: forecast analysis, analyzing of conditions and project concept development, project justification of future investment, selecting and matching of placement, eco-justification, expertise

<u>Documents development and preparation for project implementation</u>: development of design and survey works plan, paperwork development, approving of technical task, final decision-making of investment

Investment phase:

Bargaining and contract concluding: contract developing, agreement concluding, plan development

Project realization: development of realization plan, schedules design, execution phase, monitoring and control, plan correction, costs covering

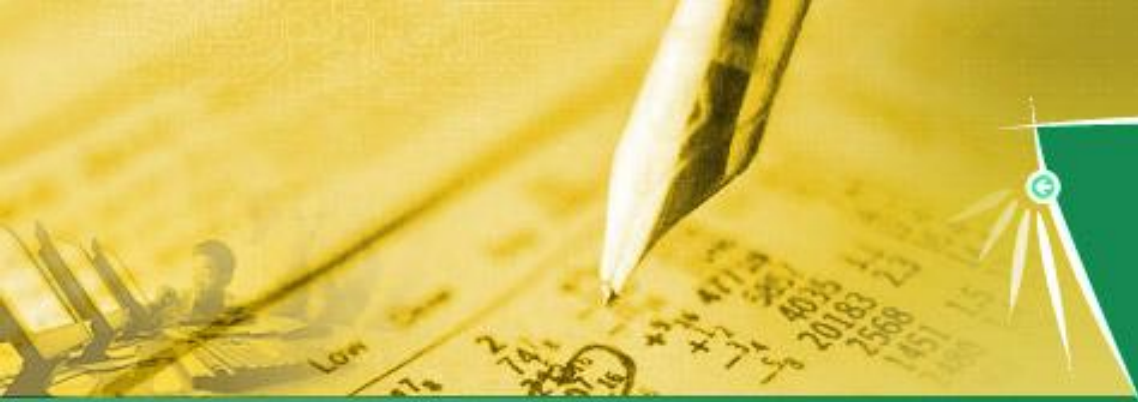
Project shutdown: commissioning, start of the object, demobilization of resources, exploitation, repair and manufacture development, close of project and demounting

Innovative project business plan should answer following questions

- What is investment efficiency of the project as against to simple market rate of lending rate. It is characteristic of simple alternative investment, for example bank deposit
- What is the outlet measure (solvency, demand), profitable in conjecture, perspective, increasing and accessible for assimilation
- Competitive advantages of the firm in correspondences with the market conditions
- Level of stability of resource market (price, suppliers, conditions)

Innovative project business plan should answer following questions

- Technical and commercial risks of the project and ways of its minimizing
- How many financial resources and in what form (money, loans, equipment, know-how) is required for production and future development?
- What are the nearest perspectives of enterprise financial development and determining of unprofitability period?
- What strategy of profit maximizing will be implemented by the firm (combination of prices, volumes of production, structure of expenses, volumes of first investments involved



Business plan development mechanism

1. Evaluating of investment attractiveness of the project
2. Determine of market capacity increasing of trade area
3. Analyze of competitive advantages of future product
4. Determine conjecture of resource market
5. Analyze of risks
6. Planning of start balance and future venture funds involved
7. Reasoning of future balance and expenses
8. Optimization of firm’s politic in pricing, volume of production, investment involved