

# **MODERNIZATION OF MODEL FOR INITIATION OF INVESTMENT PROJECTS AS A FACTOR OF BALANCED MAINTENANCE OF REGION'S INVESTMENT-INNOVATIONAL ACTIVITY**

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*In recent decades, because of globalization, development of social, information technologies and some other reasons cities and regions of the world have received the brand new possibilities of economic and cultural development. Barcelona and Sydney, Vancouver and Helsinki, separate parts of Zurich and Strasburg, along with spread row of provincial and little-known towns and regions, took advantages of new opportunities and obtained a high-capacity inflow of investments and tourists, increase of business and local communities' activity, new political weigh and cultural significance. As a result, at these territories, the quality of life increased, as much as integration degree of political, business, and cultural structures into national and international area, including investment. In Russia new possibilities were being explored by each territory according to its opportunities, within the programs of Russia's regions innovational development. Nowadays, because of accumulated international and domestic experience, we can easily say, that the time has come to expand the limits by embracement of technological innovational activity by investment and social-cultural approaches to development and branding of territories.*

*Key words: Innovation development, Investment potential, Investment-innovational activity, Region, development technologies, Development models*

## **INTRODUCTION**

Due to the current situation of regional development in Russia it is obvious for federative subjects: one should not expect a permanent, guaranteed and full-measured financial support from federal budget aimed for implementation of ambitious plans of long-term development in industries, which possess an absolute and relative competitive advantage, as well as for solving of average-range issues of regional development, which are especially actual for mono-regions. In circumstances of rapidly expanding globalization, large-scaled integrative processes, which are accompanied by, even conditional, but, nevertheless, reduction of multiple bureaucracy – custom obstacles and elimination of most part of

protectionist measures (let's not forget the WTO terms), each territory – from mono to multi, from small-scale to large-scale, from wealthy with natural resources and intellectual potential to poor – must clearly imagine its place in emerging economic world order, develops necessary complex of short-, average- and long-term measures for saving and evolvement of advantages in rapidly changing competitive environment [09]. But what is the most important to understand for managers of all-types of territories: they are alone and they should not rely exclusively on support of federal center and lead an inertial development policy. Even more territories are interested in development of its strategies. There are about 102 000 territorial units, thousands of regions and millions of places only in Europe.

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Impact of multinational companies and global market development make each territorial unit to evaluate its individuality. In current situation it is necessary for city and regional managers to create and develop inner governmental structures, which consist of high-qualified project managers with purpose (based on concept of public private partnership) of maintenance of territory's (city, state, etc.) investment-innovational activity.

In Russia an understanding of emerged situation, priorities rating and realization of radical changes at regional level in territorial development occurred in the middle of 2000's. Kaluga region can be called «home» of such changes. That region was the first among others, which in 2005 developed and in 2009 implemented a concept of regional institute of development. Kaluga's experience, more than anyone else's, was projected and borrowed by other regions. Current model can be used and implemented in working process of regional development institutions. But first of all, we have to give an explanation on glossary of key elements of investment projects initiation, which will be used in current paperwork.

## METHOD

Technological investor – is a company, «owner» of specific industrial technology, which specializes on manufacturing of specific product and interested in extensive development and outgoing for new, unexplored markets [10]. There are also two under types of technological investor:

Under type A. Manufacturer of high-tech industrial products – produces and sell machinery and equipment (technological hubs, combined heat and power units, elements of conveyer installation, etc.), which are necessary for manufacturing of wide-spread products (food industry, automobile industry, construction industry, etc.);

Under type B. Manufacturer of wide-spread products – produces some kind of product, which covers the demand of mass consumption;

Under type C. Supplier of «ready solutions» - organization, which specializes on supplement of ready technological solutions «key ready», which utilizes and successfully combines services of A and B under types. It produces nothing, but exclusively provides new business with possibility of entrance to new, already existed, market and possibility to compete with industrial leaders, with relation to government protectionist measures or further acquisition.

Case investor – company or private person, who possesses undistributed net income and being in a process of searching for optimal investment opportunities, connected with high level of social responsibility (development of third-world countries, establishment of new high-tech workplaces, etc.).

Educational institution – an organization, which sells knowledge and specializes on tutoring of high-qualified industrial specialists, who meet the demand in specific industry of variable territory.

Institute of development – structure, established by territorial executive authority in purpose for maintenance of balanced development of region's investment-innovational activity saving and multiplication of intellectual protection, and also development of public private partnership institute [03].

Taking as initial minimum necessary condition that region has developed a goal-oriented industrial development program, all activity in implementation of investment projects can be developed into 4 parts:

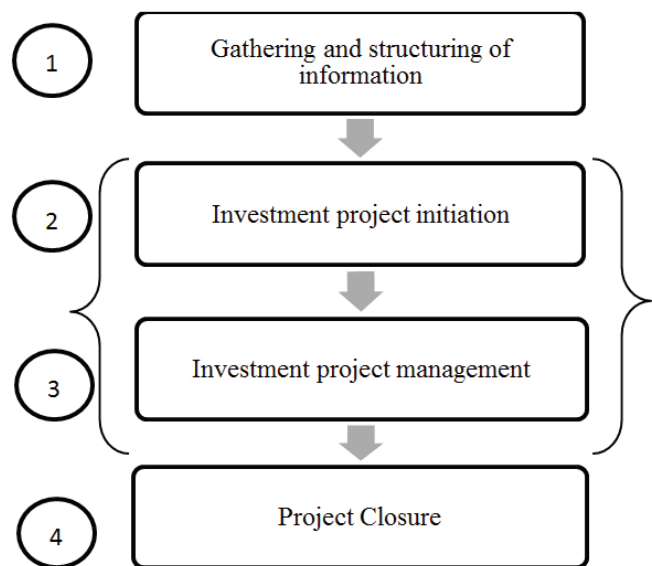


Figure 1: Stages of investment project implementation

Within this paperwork we will cover the first two points – gathering and structuring of information and investment project initiation, which are crucial steps on the way to successful accomplishment of goal for initiation off investment management and investor involvement. At these stages each detail is important and each, initially irrelative, mistake is high-valued [13]. Most part of mistakes, which significantly influence on further relationships with investor and project management, occurs at these stages. Passing of these

stages is one of the most important tasks of development institutions. At these stages development institutions conduct gathering, analysis and packaging of information in structured format demanded by potential investor.

Current situation: at the current moment the quality of information, addressed to investor is relatively insufficient: lack of analysis of industrial market condition and perspectives, which are necessary for evaluation of resources base, competitive environment, and also sale opportunities; lack of structured business-plan and technological-economic explanation of project implementation. Without this information technological as well as case investor will not pay significant attention to proposal.

At the current moment in the world there are millions of companies, which lead their businesses in widest range of industries, situated at the different stages of development: from start-up looking for financing to large industrial conglomerate looking for new outlet markets and optimal investment grounds for expanding of production capacities, optimization of logistics supplement chain and achievement of competitive advantages at purpose markets [11].

Alongside in the world there are vast amounts of undistributed net income possessed by private and institutional investors. These institutes are in process of permanent searching of optimal investment opportunities and are target auditory for regional development institutes on their way to project management independent from federal budget.

Purposes of development institutions (in Belgorod region – Department of economic development and JSC «Razvitie Corporation») at current stage are:

1. To determine a prior direction of region's strategically development by conducting of complex analysis of strong and weak sides of regional social-economic policy, potential opportunities and threads;
2. To determine a target company – potential technological investor by, if possible, getting an access to inside information on extensive development and searching of optimal investment grounds in purpose of production capacities expanding;
3. To conduct «a unified industrial market research» (with possibility of further usage for involvement of other technological investors)

for provision of initial information to potential investor about perspectives of business development at the current territory.

4. To prepare a business-plan and technologically-economic explanation by overlaying of local/inner data (data, which is belonged to project's initiator (development institute) and external data, which is belonged to technological investor (under type B has the most eased access).

Points 3 and 4 (market research + business-plan + technologically-economic explanation) are the essence of successful investment project initiation and, although not guarantee the success of project, but provide a real attention from technological investor [08]. At the current moment we can claim, that regional investment promotion system, which is utilized by regional development institutes, at the very quality level implements points 1 and 2 and making a comprehensive market research, which gives answers to main questions of technological and case investors:

- What are condition of resource base and its location refer to investment ground?
- What is condition of competitive environment of the territory?
- What are the current situation and perspective of products outlet for current and neighbor territories?

These questions are basis and can be added by further optional questions in dependence of implemented project's type: will the governmental guarantees be provided for current project? In what form the project will be implemented (subsidiary of foreign enterprise, domestic enterprise, etc.)? What are the opportunities of loan attraction (possibilities on export credit)? Does investment ground provided with engineering communications and infrastructure (concrete roads and railways, gas and water supply, electricity)? What are the terms and tariffs of connection? Are there any subsidies and other forms of investment activity stimulation, e.g. reduction of interest rate, «tax holidays», etc.? Where and when can emerging of new competitors be expected?

Abovementioned questions, so-called FAQ for technological and case investors, must be appropriately provided with timely (because situation changes daily in rapidly evolving globalized competitive world) and informative (because

only possessing the comprehensive picture investor can take a fully supported, reliable and explainable decision) answers. It is reasonable, that these answers must be put into the foundation elements of system of successful investment project initiation. Of course, such system must be improved by including the normative indicators, which were empirically received:

1. Availability of resource base (for example, raw milk - for dairy processing, chalk and kaolin – for cement manufacturing, biogas for co-generation, animal and plant wastes – for biogas, etc.) in quality that meets an international standards of technological investor and demands of target market consumers, in quantity, which enables the investor's preferable level of projects profitability, and, also, located in distance which holds logistics expenses within the acceptable range [02].

Relations with potential raw suppliers under terms, when vertical integration is not effective, are regulated by preliminary conclusion of contracts on supplement of concrete quantity of raw.

$$AoR/AD \Rightarrow ROI + N, \quad (1)$$

Frame measure:

where AoR - amount of available resources which support non-stop functioning of investment object (in tons);

AD – annually intake at the current enterprise (in tons);

ROI – return of investment (years);

N – necessary quantity of years (usually 10).

2. Competitive environment: an acceptable quantity or complete absence of competitors

$$CPC \leq (CD - MwT)/N, \quad (2)$$

on target markets. Frame measure:

where CPC – competitors production capacities or product output (in tons, units, etc.);

CD – current demand (in tons, units, etc.);

MwT – capacities manufactured within current territory (in tons, units, etc);

N – division of market share (usually 3).

3. Outlet: guaranteed amount of product consumption. Relations with potential product consumers of investment project's object can be regulated by preliminary conclusion of trade agreement. Frame measure: see point 1.

Based on one of the authors personal work ex-

perience in development institute (JSC Razvitie Corporation) and other project manager's experience, would like to mention about the rule of «single page», which founded upon the three steps from Investors FAQ: resource base, competitive environment and outlet.

The «single page» rule very simplistic claims: if you can not present the core advantages of perspective project to potential investor within one page – this project is a failure (refers to A. Einstein's «if you can not express something with simple words, you do not understand it yourself»).

Separately, we would like to stress out attention on system of risks, which case investor (both, individual person and institution) meets during taking the decision concerning investment project management in one of the Russian Federation's subjects:

- The lack of reliable investment climate, and various sustained and actively supported stereotypes about different bureaucracy obstacles and barriers for entrepreneurship activity. Decision: provision and maintenance of maximal transparency of business-processes, processes of investment projects management, optimization of development institutes activity («one window» mode), provision of personal contacts with managers of territories from all levels.
- Case investor does not want to take risk and invest access into project implemented by independent (not authorized or newbie) company (usually represented by under type B of technological investor). Decision: granting an access to informative and transparent company's portfolio/reference list, mutual visits to objects accomplished (constructed and/or managed) by technological investor, conducting of three-fold meeting in format «technological investor – development institute – case investor».
- ROI indicator returns too huge amount and does not reflect investor's policy/suggested amount of equity shares in newly establishing enterprise (for project implementation) does not satisfy investor. Decision: optimization of investment proposal and searching of status-quo for both sides (essentially, this is one of the prior tasks of development institute), decreasing and gradual «erosion» of case investor's share in equity capital of joint venture by increasing the shares of government and technological investor.

Table 1: Comparative matrix of models of investment projects initiation

#	Element of model	How it is (current model)	How it should be (proposing model)
1	Client orientation	Development institute do not generate client-oriented investment proposals	In structure of development institute functions a department («package company»), which consists of high-qualified graduates of economic universities with knowledge of foreign language [04]. Their functional responsibilities include gathering and preparation of structural investment proposals in optimal format for investor (market research + business-plan + technological-economic explanation of project). The foundation for development of such investment proposal is system of questions for technological and case investors and key indicators of long-term industrial programs of regional development.
2	Inter-departmental collaboration	Inter collaboration between regional development institutes has relatively low quality	It is necessary to strictly distribute the functional obligations, area of responsibility and rights of regional development institutes in purpose of minimization of functional doubling, optimization of expenses and quality improvement of information interexchange [06]. Regional Government must develop the complex of law acts, which regulate inter collaboration between region's development institutes.
3	Ignoring of case investors	Proposals are sent exclusively to technological investors (in prevalence, to under type B), alongside this, until the recent times there was a lack of understanding the place of case investor in process investment projects management. However, case investors, hold the first place as a source of large-scale industrial projects financing (1 <sup>st</sup> – case investor, 2 <sup>nd</sup> – technological investors, 3 <sup>rd</sup> – federal budget) [01]. Development institutions have to divide the purposes of technological and case investors. Only by understanding of quality differences between two under types and, therefore, their motives, goals and tasks, there is a possibility to achieve and appropriate collaboration between two types of structures.	Investment proposal in full measure has to be prepared with accountant of case investor interests as one of the core elements of successful implementation of investment project's initiation.
4	Personnel policy of Investment projects	Regional high educational institutions due to objective (lack of the expensive technical equipment) as well as subjective reasons (late informing), not always can make an in-time launch of educational program and preparation of high-qualified specialists for further employment at investor's enterprise. Development institutes have to intensify the cooperation with regional high and professional educational institutions through the optimization of information channels of inter collaboration, and conduction of brief-meetings/round tables with participation of representatives from foreign educational organizations.	It is possible to solve the issue of personnel supplement by three approaches: <ul style="list-style-type: none"> <li>Including of profiled HEIs in participation of project at the first stage (improvement of awareness and information supplement under the possibility of domestic HEI to overwhelm the deficit of personnel supply by inner resources);</li> <li>Organization of joint educational program between Russian and foreign educational organization (abilities of two institutes will mutually enhance each other and significantly improve the quality level of curriculum);</li> <li>Theoretical and practical education of graduates and post-graduates on basis of foreign educational organization in order to increase the level of professional qualification [12]. We should not refuse from potential idea of industrial investment project development and absence of personnel potential. However, obviously, we should consider that the presence of such potential is unarguably and significant competitive advantage of the region during the taking decision about cooperation by investor.</li> </ul>
5	Institutes of integration	Cooperation with integration institutes, such as trade embassies, trade industrial chambers, industrial funds and associations, and private business consultants holds disintegrative and not-optimized character, where goal significantly prevails over means.	As much as in case with technological and case investors, development institutes, first of all, have to analyze incentives, aims and tasks of integration institutes, and also appropriately analyze the meaning of cooperation with current class of organizations [07]. Nevertheless, the one should not underestimate integrators, cause occasionally the direct contact between them and investor can direct the root to the successful start of project.

In conclusion of first stages discussion we would like to formulate, probably, obvious, but necessary for re-thinking idea: investment support of large-scale industrial projects almost does not include venture investment [05]. Regional development of many industries in Russia is led by principle of borrowing from foreign technologies, rather than venture investment in development of domestic small innovation companies. It happens due to rejection of large domestic enterprises to invest into high-risk and rather not guaranteed results of scientific researches. Now let's compare existent and proposing model of investment projects initiation by structuring of abovementioned material in main directions, comparing situation in format of «how it is» and «how it should be».

## SUMMARY

The purpose of any regional development institute's activity lays in provision of sustainable dynamic of three flows of region's investment-innovative development: technological (transfers of technologies by inter cooperation with technological investors of all types), financial (investment management of large industrial projects and venture investment by inter collaboration with private and institutional investors) and scientific (education of high-qualified specialists and conduction of innovation researches by maintaining of optimal cooperation between domestic and foreign educational organizations). Representing the current situation of investment projects initiation as a model, we will observe the following:

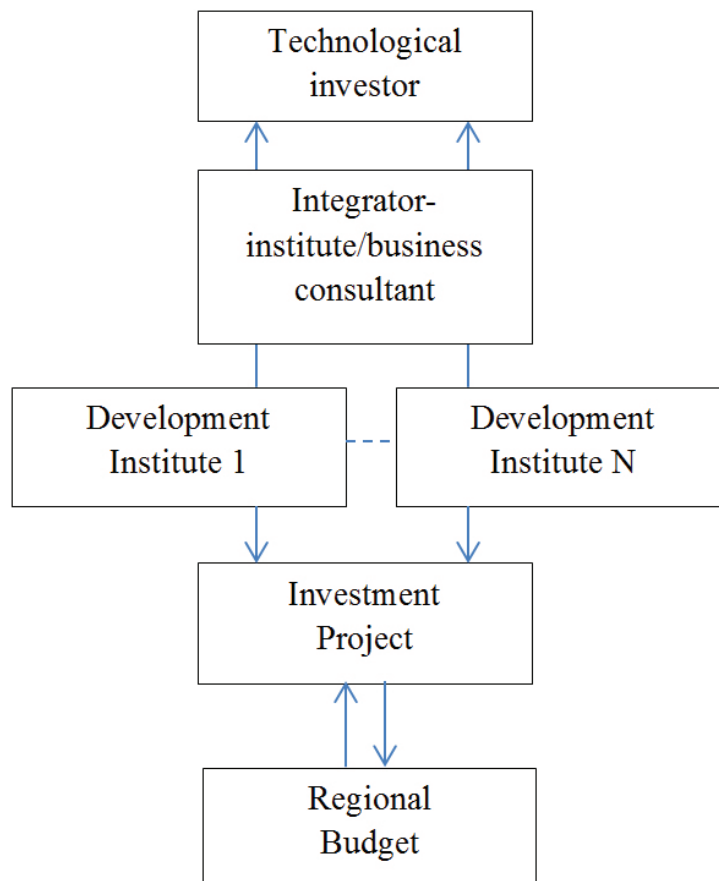


Figure 2: Current model of investment projects initiation

Disadvantages of current model:

- Does not consider the factors of project's investment and personnel supplement;
- Does not include a package company as a subdivision of development institute;
- Does not question the efficiency of integrator's services;

- Does not regulate the relations between development institutes (1...N).

Considering the abovementioned description of «how it should be» mode, we can create an improved model of investment projects initiation, which less developed from budget, less developed from integrative institutes and claims its

main goal as a maintenance of balanced development of region's investment-innovational development through synchronization of inter col-

laboration between all elements of technological, financial and scientific process.

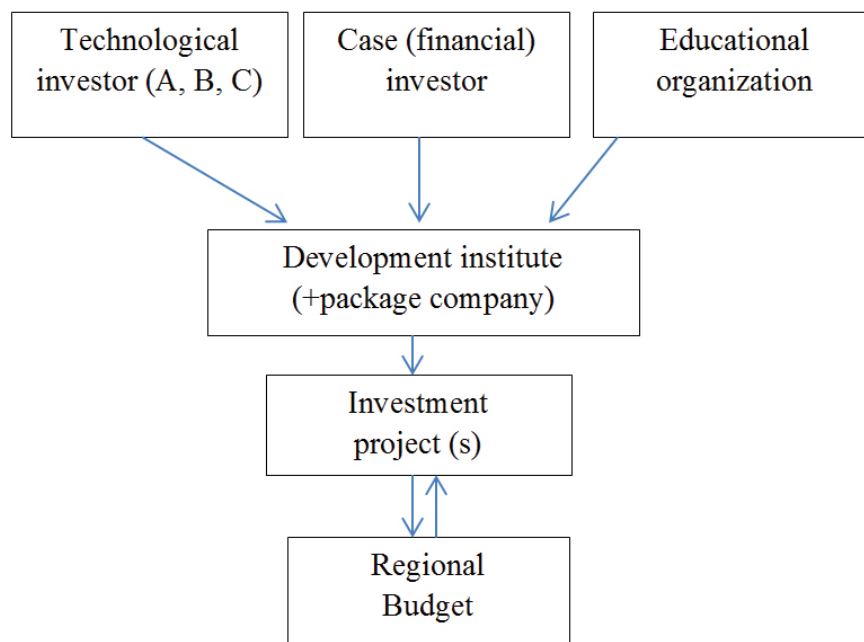


Figure 3: Proposed model of investment projects initiation

Balanced development of region's investment-innovational activity can be achieved only through coordinated synchronization of cooperation between all elements of model of investment projects initiation.

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