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## INVESTMENT SUPPORT FOR COMPLETED PROJECTS AT AGRICULTURAL ENTERPRISES

*The article analyzes the key problems of investment security of agricultural enterprises in Ukraine and identifies the unresolved issue of determining the objective criteria of economic efficiency for projects implemented at agricultural enterprises. An approach is offered to assess the ability and the willingness of agricultural enterprises to introduce innovative projects using angel investors.*

*Keywords:* investments; project; agricultural enterprises; angel investors.

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## ІНВЕСТИЦІЙНЕ ЗАБЕЗПЕЧЕННЯ РЕАЛІЗОВАНИХ ПРОЕКТІВ НА СІЛЬСЬКОГОСПОДАРСЬКИХ ПІДПРИЄМСТВАХ

*У статті проаналізовано основні проблеми інвестиційного забезпечення та рівня інвестиційного розвитку сільськогосподарських підприємств України. Встановлено, що невирішеними залишаються питання визначення об'єктивних критеріїв економічної ефективності реалізованих проектів на таких підприємствах. Запропоновано підхід до оцінювання здатності і готовності сільськогосподарських підприємств до впровадження інноваційних проектів за допомогою інвесторів-янголів.*

*Ключові слова:* інвестиції; проект; сільськогосподарські підприємства; інвестори-янголі.  
Табл. 2. Літ. 12.

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## ИНВЕСТИЦИОННОЕ ОБЕСПЕЧЕНИЕ РЕАЛИЗОВАННЫХ ПРОЕКТОВ НА СЕЛЬСКОХОЗЯЙСТВЕННЫХ ПРЕДПРИЯТИЯХ

*В статье проведен анализ основных проблем инвестиционного обеспечения и уровня инвестиционного развития сельскохозяйственных предприятий Украины. Установлено, что нерешенными остаются вопросы определения объективных критериев экономической эффективности реализованных проектов на таких предприятиях. Предложен подход к оценке способности и готовности сельхозпредприятий к внедрению инновационных проектов с помощью инвесторов-ангелов.*

*Ключевые слова:* инвестиции; проект; сельскохозяйственные предприятия, инвесторы-ангелы.

**Introduction.** Given the lack of domestic sources of financing, foreign investment becomes the source that may make the most significant contribution to the technological re-equipment of production, sustained economic growth, development of export industries, import substitution, improving enterprises' efficiency. The major source of economic growth is investments. Ensuring the competitiveness of national economy and economic growth is closely related to resources provision. Thus, the issue of attracting foreign investments into Ukraine's economy is urgent, including the expansion of forms and mechanisms of investment projects in key branches of the economy, establishing of cooperation with various types of international investors.

**Brief literature review.** A range of problems connected with attracting investments and their provision as well as the research on the completed projects at agri-

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cultural enterprises have been considered: V.H. Chaban (2010), S.O. Hutkevych (2003), M.I. Kisil (2012), M.Y. Kodenska and N.M. Vasylets (2002), M.M. Kropyvko (2010), I.V. Lipsits (2000), I.I. Lukinov (1991), H.M. Pidlisetskyi (2012), P.T. Sabluk (2008), P.I. Yukhymenko and I.V. Bezpechna (2005), A.A. Zadoya (2013), O.V. Zakharchuk (2001) and others. However, industry-specific practical aspects of this problem have not been studied sufficiently yet, including the issue of providing investments for farms considering their specific risks.

**The goal of the article** is to describe the problems and the current situation with financing mechanisms for investment projects in agriculture involving angel investors.

**Key research findings.** Typically, the venture capital market is divided into formal and informal ones. The formal venture capital market is represented by venture funds, which are joined by financial resources of investors. The informal venture capital market consists of private investors who invest their own money into new and growing small and medium-sized firms. These investors are called «angel investors».

An angel investor (also known as a business angel or informal investor, or angel funder) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

In practice, even these companies which once held IPO apply to angel investors. Usually, angel investor is ready to finance up to 500000 USD (Zakharchuk, 2001: 222–226). However, if one manage to get financing from angel investors' association, this amount may increase manyfols.

The European association of angel investors EBAN (European Trade Association for angel investors, Seed Funds, and other Early Stage Market Players) was established in 1999 under the auspices of the European Commission as a mechanism to facilitate relationship and search for investors (angel investors) and entrepreneurs who need investments. Seed funding is the money required by start-up companies to either begin operations or to fund the production of certain items a company plans to sell. This round of funding is usually the first that the business uses and it allows investors get on to the "ground floor". In some cases, seed funding may be provided by friends or family or by business-owners themselves, but outside help is generally required for a new business to survive. Venture capitalists, who provide funding in return for ownership shares in the company, and banks and other financial institutions, which provide business loans, are other methods of early financing.

This association is not the only one, but according the latest research, it has the most extensive network of angel investors. There is an office of the association in every European and some CIS countries. However, it does not mean they finance projects only within the country. Usually, they are also interested in promising projects abroad. The above Association is a platform where the interests of angel investor(s) and entrepreneurs meet (Lipsits, 2000: 34).

Implementation scheme of the Angel Investors Associations' fundraising differs depending on a country investor deals with. However, there is a generally accepted algorithm (Table 1).

*Table 1. Algorithm of receiving financing from the EBAN, compiled according to (Kodenska, 2002: 58–63)*

Self-assessment	Online application	Screening meeting	Presentation to membership	Due diligence	Term sheet negotiation	Funding & Beyond
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Stage I. Self-assessment. At this point, one should clearly determine whether investment from angel investors is of urgent importance or whether or not a company needs investment from angel investors. In case of a positive answer, one has to prepare a business plan in accordance with the requirements and suggestions put forward by the association.

Stage II. Online application. At this stage, one has to sign in on the site as an entrepreneur. Then to submit a business plan. Special Association Committee estimates the principle components of the project and takes one of the following decisions: to invite for a meeting, to send a draft for revision in collaboration with committee experts, or to reject the project.

Stage III. Screening meeting. If the committee gets interested, one will be invited to a short 10-minute presentation of the project.

Stage IV. Presenting to the membership. One will be invited to make a 30-minute presentation to all angel investors-members of the association. At this point, angel investors, interested in your project and with whom further to cooperate, are determined.

Stage V. Due diligence. It is the most important stage, since a group of independent experts in cooperation with angel investors will audit the financial and economic situation of company and/or check adequacy of financial ratios calculation, which formed the basis of the business plan.

Stage VI. Term sheet negotiation. In case of a successful due diligence procedure, a final meeting with angel investor (angel investors group) is held, where the details of future agreement and cooperation are discussed.

Stage VII. Funding & Beyond. At this point direct cooperation with angel investors starts. Company receives necessary funding for future development.

In practice, not all submitted projects are eventually supported. The main reason for rejection at early stages is non-compliance with the requirements and recommendations put forward by the committee and by the very angel investors. Therefore, in our opinion, it is important to prioritise project areas of angel investors' attention (Table 2).

In the agricultural sector, such fund raising usually takes place in construction of railway terminals, elevators, potato storages, high-tech systems for crops processing, machinery, and plants for recycling of waste into biofuels etc.

Development of venture business in agricultural sector is limited under current conditions. This is caused mostly by a number of external factors. Firstly, there is no economic interest of most agricultural enterprises to implement totally new developments, innovations of a high engineering and economic level, which creates a low demand for such novation. Secondly, securities market is underdeveloped, and, thirdly, there is weak competition at the domestic scientific-technical (sci-tech) market.

The sci-tech market is a very specific one in our country. There is a huge demand to improve the existing processes, including sci-tech developments on the one hand.

On the other hand, demand for revolutionary innovations, new advanced technologies is small. We almost have no market of such products, since the majority of farming companies are not able to change fundamentally the existing technologies.

*Table 2. Main requirements of angel investors during the project review, compiled according to (Kropyvko, 2010: 56–59)*

Area	Typical questions
1. Management team	- Is your management team experienced, motivated, solid and ready control and decision-making authority, advice and recommendations on the part of outside investors?
2. Target audience	- Do you have a target audience (target segment)? - Does it show a stable demand for your product /service?
3. Market size	- Are your projected income measures significant and constantly growing? - Does the company have a potential to expand (increase the volume of production /services) by increasing the size of the market?
4. Competition	- Have you identified the target competitors? - Does the company have a competitive advantage as compared to competitors?
5. Technology	- Is the technology you will use to manufacture equity production reliable (time proved)? - Can the experts confirm this? - Do you have a business plan of technology commercialization (in case the technology has been recently developed)?
6. Intellectual property protection	- Is your intellectual property protected?
7. Sales strategy	- Do you have an adequate plan for rapid market penetration and consolidation of your position there? - Will you create a strong internal sales team or rely on external channels of partners?
8. Profit earning capacity	- Can you demonstrate how you will reach high profitability and sustained growth of cash flow?
9. Capital	- How much money you need and what are the purpose of its use?
10. Financial forecasts	- Did you prepare the projected balance sheet, profit and loss statement, cash flow report based on actual, reasonable and logical assumptions?
11. Exit strategy	- Does your strategy describe the terms and the ways of exit from a business for angel investors? - Is there a reasonable high probability of obtaining by angel investors 10 times more money as compared to the invested amount in 5–7 years?

Today, only foreign companies, which actively seek the market of Ukrainian intellectual products, show interest in commercialization of promising developments. But in spite of all obstacles, venture investment will facilitate development and implementation of innovative projects in agribusiness, since the peculiarity of this activity type is that funds are provided for a perspective project with investor's active participation in venture company management, thus reducing risks and increasing the rate of return on investments.

Based on the foregoing, one can note that venture capital is potentially a cheap source of innovation activity financing for a agricultural enterprise, as it enables company's growth not increasing its debt burden. Therefore, farmers need to improve the investment management through establishing cooperation with foreign investors,

including angel investors, with the purposes to raise funds for the implementation of innovative investment projects.

On the part of the state, implementation of the main directions of the investment policy in the agricultural sector needs further consolidation of resources including all sources of funding. In order to mobilize and use effectively the additional sources of financing of the agricultural sector of Ukraine's economy the following measures should be realized:

- creating the priority list of agricultural subsectors for implementation of investment projects, as well as sci-tech programs and major directions of fundamental research, financed from public funds;

- improve the regulatory role of the state in investment processes by concentrating and channelling investment resources of budgets at all levels as well as credit facilities;

- develop tax incentive instruments of investment processes for foreign investors;

- make reasonable choices of investment projects to provide state guarantees to foreign investors if: an investment project is at the national level of importance; investment promotes resource-saving and environment-friendly technologies, products are export-oriented, investment contributes to the creation of new jobs, particularly in regions with tight labour markets;

- make the transition from irretrievable budget financing of investments to goal-oriented crediting of investment projects on favourable terms and with property guarantees of their intended use;

- develop a mechanism to strengthen the economic interest of foreign investors in the projects connected with exportable products;

- facilitate fundraising, including those coming from international financial institutions, foreign investment funds, venture and angel investors;

- creating a Free Trade Area between the EU and Ukraine, apply integration mechanisms to enhance investment cooperation with European investors.

**Conclusion.** Expanding the variety of forms and mechanisms of funding will attract the funds of foreign investors to ensure innovation and economic development and to raise competitiveness of domestic agricultural sector at the world markets through implementation of the above macrolevel measures together with managerial improvement of investment projects.

The policy of investment provision has to be systematic and complex. Development of regional state programs, improvement of the schemes of privileged crediting, search for new investment schemes of investment provision will allow agricultural enterprises obtain funds more easily.

Given the above, one can claim that due to the lack of state support for innovations of agricultural enterprises and the lack of favorable credit and financial system, own funds, depreciation and proceeds from the sale of obsolete equipment remain the main sources of investment. With limited investment resources it is necessary to integrate all the participants of the market with their innovative ideas, developments, products and services (scientists, inventors, economists, managers, farmers) in one organizational-economic mechanism within the appropriate legal framework in the near future.

Conceptual framework and guidelines on improving investment policies are to be developed. These guidelines are to be directed on further development of theoretical and practical foundations of innovations management and investment processes in agricultural production.

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