Private Sector Investment: The Saxon Triangle

Private Investment Guidelines – A proposed study – project

Description: Realize a study to help create the relations between business – person form the area and the potential financial partners.

Beneficiaries: Inhabitants of rural communities

Project Implementer: BTF – Bran Srl

Co-implmenter: Local private sector

Timespan: 6 months

Estimated Cost: 70,000 dollars

Partners: Private sector

Origin: BTF – Bran Srl
Private investment in new business is the ultimate driver of economic growth and success. Entrepreneurs, meaning individuals who have a business idea and the will to take risks, are the creators of new companies. This cannot happen, however, without government support and investment in infrastructure (roads, clean water, signage), regulations (strict anti-corruption enforcement, environmental protection, hygiene), stabile tax-policy (predictable and fair taxation), and a judicial process able to cope with business-related issues (minority owners, bankruptcy, dispute resolution, etc). Economic growth will not occur, either, without active involvement of capital sources (banks, investors, and grantees).

The ‘Saxon Triangle’ that is bounded by Sibiu/Sighisoara/Brasov, is richly endowed with heritage sites, pristine landscapes, and an agriculture base each of which represents business opportunity. Within the triangle are about 175 villages as well as numerous others on the outer edges. The economic potential is exemplified in the rapid growth of small hotels, rural pensions, restaurants, craft makers, and new agricultural activities. The cohesive geographic quality and scale of the Triangle will aid significantly in giving it a marketable identity. Giving it special ‘protected status,’ similar to heritage zones in other countries, would bring additional visibility. This will be beneficial to businesses wishing to promote the heritage, natural environment, and traditional crafts particular to the area.

To generate growth, new business ideas must be encouraged and existing ones supported. To do so requires a robust set of guidelines that (a) help the business-person or entrepreneur construct his or her plans, and (b) allows the potential supported (bank, investor, grantee) to evaluate the quality of proposition put forth. Below are listed five categories of information that must be considered in the making and evaluating of business projects.

1. Types of businesses
   a. Owned and operated by individual (or family)
   b. Representing a larger company
   c. Partnership or joint venture with another company
2. Evaluation criteria for a business proposition (new or expansion of existing)
   a. Management ability and character of owner/entrepreneur
   b. Business proposition and target client/market
      i. Product or service description
      ii. Local, regional, national or international market
      iii. Size of market and percent needed to become profitable
      iv. Promotion plan
   c. Business plan (3 to 5 years forward)
      i. Initial expenses
      ii. Revenue/cash flow
      iii. Break-even (BE) point at which ‘contribution’ is equal to fixed costs; the % of targeted market to achieve BE)
      iv. Amount of capital needed to reach BE
      v. Source of capital and cost

3. Types of private investment capital sources (which is most ideally suited)
   a. Personal money
   b. Loans
   c. Investment (individual or corporate)
   d. Grants or subsidies
   e. Sales of stock (public)
   f. Partnerships

4. Type of support needed (are they accessible and are they capable)
   a. Professional: lawyers, financial advisor/accountant
   b. Local or regional authorities (regulations, other)
   c. Infrastructure (utilities, roads, etc)

5. Other factors to be considered (is the business aided or hampered by them)
   a. Government regulations
   b. Taxes
   c. Exchange rates

Private Investment Guidelines – A proposed study-project

The five categories of information outlined briefly above are essential ingredients to determining the potential of a business proposition. It is suggested, for discussion purposes at this meeting, that a study-project be initiated to fully develop these criteria into a working set of business development guidelines. These would be used by the creators of business propositions to better craft their plans and their funding requirements. They would be used, too, by individuals and institutions to better evaluate those propositions.

For example, it is axiomatic in business that a business plan will only be as good as the individuals implementing it. This puts a focus on both tangible and intangible qualities. The tangible ones include a prior record of business activity or the quality of planning documents; intangible ones include the passion to succeed, risk-taking propensity, courage to endure failure,
Another example is the evaluation of a business plan. Another axiom of new business plan is that they tend to overestimate the customer potential by 50% and underestimate expenses by 50%. This generally produces unrealistic business plans and a quick ride to failure. It is incumbent on the creator of a plan and the evaluators to test the assumptions. One way to anticipate this is by having a business plan include high-medium-low projections throughout. Thus is a person is planning a hotel or pension, the first thing to test is the assumptions about occupancy rates. In the Saxon Triangle, for examples, rural pensions run at 10% occupancy annually. Hotels in larger communities run at 35% annual occupancy. If a business were predicated on 50 to 75% occupancy, there would be absolutely not reality to the projections.

A well-developed set of Private Investment Guidelines provides both an objective set of criteria against which to make business plans as well as a training tool for the less experienced entrepreneur. The proposed study-project would address both those needs and uses of the guidelines.

A. Some steps in carrying out a study plan:

1. Identify a knowledgeable coordinator with business experience and/or
2. Identify partner institutions such as business schools (one in Romania and one abroad) to assist in the study-project
3. Create a small advisory group (5-7 individuals)
4. Identify 15-20 small businesses that profile both successes and failures
5. Write short case-studies on their business histories
6. Draw lessons learned from those case-studies
7. Draw an amended set of guidelines that reflect ‘local’ conditions as exemplified in the case studies
8. Propose an intermediary mechanism for training businesses in meeting these guidelines
9. Propose an intermediary mechanism for filtering those business propositions to logical sources of support

B. Estimated budget and timetable for (A) above

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(60 days x 4 people @ 75/day)