Royalties Are Particularly Appropriate for Use in Developing Countries©

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It is probable that the first transactions in primitive, pre-money markets were based on barter, with a small animal, a tool, some food or a piece of stone traded for something else. Barter exchanged either the ownership or use of something for something else of similar value. The use of land for an agreed amount of what was produced on the land was barter. The use of a ship for a percentage of the revenue produced by the ship was a normal relationship.

There was no attempt to calculate the profit of the user of the property, as the owner of the asset being used simply took his share off the top. "Hunt on my land and I get half of what you kill" or "Grow something of value on my land and I get half on the crop" or "Mine on my land and I get twenty percent of what you mined". Money was not in the equation, nor was value of the asset; it was just a trade between those owning something and those wanting to use it.

Once there was generally accepted currency, the concept of barter morphed into royalties, where the owner of the currency was able to trade its use for a percentage of what was produced using the money. Of course, the currency could be borrowed for a period of time and interest (equivalent to rent) on the currency

could be paid. Along the way, people became partners in the ownership of assets or in the operation of businesses.

Then, much later, the concept of an incorporated entity able to sell partial interests became accepted, and stocks were born. The idea that a piece of paper representing a minority interest in a business could be traded by a company for money, and then exchanged among many investors, changed everything. What also changed was the necessary level of trust between the parties.

Partners working together trusted each other, at least at the outset of the relationship, and shareholders were required to trust the managers and controlling shareholders of companies. In the case of barter, trust was a less important factor, as physical counts were possible on completion of an event or at the time of a transaction.

In developing countries, where frequently business practice and the legal system favors the locals and contract law is not fully implemented or enforced, recovery of what is due becomes difficult, since becoming partners or investing in the shares of a company requires a great deal of trust. The necessary trust is the accurate reporting of profit. This is not a generally accepted practice in many countries, especially where taxes are due on reported profits.

Royalties -- the contractual entitlement to an agreed percentage of the royalty issuer’s revenue, not profits as in dividends -- is a better way, more in line with traditional methods of trade, since gross revenues are more easily determined than profit and royalty payments can be made whenever revenue is received by

the royalty issuer. The procedure of immediate royalty collection on the issuer receiving revnue is covered in our patent.

Are royalties issued by companies in developing areas foolproof and risk free? Of course not, since there is the ever present mind set of "We who are making the business run and profit occur" and "They, who are just providing us with the necessary money and taking too much of our profit".

Royalties work where there is limited trust, as those controlling the business can be made personally liable for failure to comply with agreements through the use of different arrangements. We will be pleased to discuss some of these arrangements with interested parties when appropriate.

The greater the physical distance between the investor and the business, the greater the opportunity and tendency for inappropriate actions by those who control the business.

Finally, royalty agreements where there are safeguards for the investor purchasing the royalty and where the royalty payments are collected on the receipt of revenue, is an approach which allows the investor to participate in the royalty issuer's revenue growth, but does not require any ownership of the business. All the royalty owner has is a secured contractual entitlement to the agreed share of revenue for an agreed period of time. The securing of contractual obligations is also covered in our patent.

All parties benefit, as the royalty issuer has the use of increased capital without the penalty of having had to share ownership, and thereby becoming a fiduciary -- which requires reporting of optimum profits.

Royalties are the better way of both investing in and financing privately owned companies.

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