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Sovereign Secured Revenue Royalties©

In order to attract international capital, sovereign nations may need to create incentives to invest in their economy, in addition to the conventional assured repayment of principal and interest offered by standard bonds.

Sovereign nations typically possess important assets to which private entities do not have access -- among these are control over natural resources, waterways, land rights, air rights, magnetic and digital spectrum, ocean navigation, ports, telecommunications, mineral and underground rights. These sovereign assets may be efficiently monetized for the benefit of a nation, its people and companies, using an appropriately structured Sovereign Secured Revenue Royalty. Such royalty securities may also provide an attractive return on investment for international investors, with effectively-controlled risk and the potential for increasing returns over time.

Revenue sharing royalties are a logical alternative approach, which can open up new sources of capital on attractive terms, if verifiable revenues from use of these sovereign assets can be measured and reliably expected to increase.

Considerations that are critical to the international investment community in such transactions will include:

> contractual compliance; because the royalty issuer is an agency of a sovereign nation, this should be sufficient for many investors,
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> rate of assured minimum and projected returns, which will be influenced by the yield of publicly-traded government bonds,
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> definition and measurability of the revenues of the revenue-generating facilities or services owned by the government,
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> currency in which royalties are remitted, and facilities in place to hedge currency exchange risk if required

liquidity of the royalty, as a financial security; available private or public markets, terms and limitations of transfer.

reporting mechanisms that accurately and transparently report all associated revenues

term of the royalty payments

periodicity of the royalty payments

redemption rights of the royalties, providing for early termination under defined circumstances

participation of neutral third-party financial monitoring and reporting institutions, providing for remittance and ongoing documentation

management fees earned by public and private entities providing administration services

The sovereign nation's economic planners have two considerations: the availability of the amount of funding desired and the comparative cost of the capital raised through a revenue royalties offering, versus conventional debt. The projectable cost of the funds to be raised using a royalty may ultimately be greater than the cost of interest to be paid on conventional debt, unless the royalty is redeemed prior to maturity. However, the market demand for the royalty should be greater than that of the nation's fixed debt obligations.

Royalties, which provide payment to investors of a schedule of percentages of the defined revenues, do not have required payments, unless negotiated in order to obtain better terms. Debt has fixed interest, and in most cases principal amortization payments. With a revenue royalty, there is no principal to be repaid, and when the royalty term is complete, payment obligations terminate without further obligation.

Defining the revenue of toll bridges, tunnels, waste management, phone, Internet, electric power, port facilities, airports or water provision services are easy because they are user fee-based. The creation of usage fee measures for hospitals, schools and public facilities such as stadiums, museums or galleries, etc., requires a bit more defining, but they can also be financing candidates.

Investors will want the currency of the royalty financial instrument, relating to purchase and royalty payment, to be one which has an international market. Valuing the currency risk will be a significant consideration for international investors.

The royalty can be internationally traded by being listed on one or more exchanges. The sovereign nation issuing the royalty can also provide redemption terms that may be combined with other types of government obligations.

The attraction to international investors for a Sovereign Secured Revenue Royalty will be influenced by an independent assessment of the prospects for growth of royalty payments, currency and liquidity. There will also be a number of investor opportunities for arbitraging royalties with the sovereign nation's bonds and currency.

There could also be a royalty paid on the amount of taxes received in stipulated periods by the sovereign nation, currency to be agreed.

For the past several years we have been focused on assisting one particular sovereign nation with royalty structuring advice and have given the use of sovereign royalties a great deal of study and thought. Our conclusion is that many cities, states, provinces and countries could also use royalties for the creation of capital to build and expand a wide range of facilities and services.

We can and would like to assist in the process of creating growth capital for many emerging economies.

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