

Funding of Ambitious Projects

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Introduction

There are many ambitious ideas for projects attempting to do things that have not been done before and that would require a lot of funding. Some of these are within the scope of technology now. Others would require future technology. Examples are:

- Space vehicles that are privately built
- Arcologies
- Space elevators
- Various alternative energy proposals

Very ambitious projects have a track record of going nowhere. Why should anyone invest in a dangerous, ambitious project like this when it is well known that they tend to fail?

This is a self-fulfilling prophecy. An ambitious project typically faces raising enough investment as its first task and this may take years. Anyone considering investing has to consider the problem that ambitious projects tend to fail by not achieving adequate investment and this is likely to dissuade many investors. This expectation of failure, however, can be the very cause of the failure!

This article will suggest a solution for this problem. Investors need to be routinely able to make conditional investments that will only become real investments if the project attracts enough investment. Investors would then be betting on how good they think the idea, the business plan and the management team are, instead of betting on other people also wanting to bet – which is what is required of investors now.

Why So Many Ambitious Projects Fail

Projects may fail for many reasons, some of which are:

- The idea is fundamentally flawed.
- The idea turns out to be unfeasible with technology that is available or can be generated by the organization pursuing the idea.
- A weak management team does not run the project effectively.
- The amount of investment needed has been underestimated.
- Competitors do something similar first, or do something better.

Although these are important, there is a universal killer of ambitious projects:

- For many ambitious projects, everyone knows that they will fail to raise enough money to be successful.
- This is a self-fulfilling prophecy: they will fail to raise enough money to be successful because everyone knows that they will fail to raise enough money to be successful.

For an ambitious project the technical difficulties are real enough, but for many such projects this is not even an issue until the project can secure the funding it needs to survive. For a number of years the main business of the project is just trying to secure the funding it needs to continue.

People know this and assess the project according to its perceived ability to perform this vital task of securing funding. The problem is that they are basing their opinion on what they think everyone else's perception will be, rather than on the real technical or business abilities of those managing the project.

I am not saying that people are wrong to make this decision. If an individual investor thinks that a project will fail to secure its required funding then he/she would be foolish to invest: the fact that the probable failure of a project may be due to nothing more than everyone else thinking the same way as an investor should be of no concern to him/her.

How This Can Be Avoided

Investors should be able to make their investment in a project conditional on others also investing. This removes the risk of an investor losing money because nobody else invested and a project is more likely to obtain the investment that it needs.

This can be done informally or on an ad hoc basis, and almost certainly has been done many times, but it really needs to work on a large scale and be routine, using organizations that can be trusted. If we do not do this we are limiting our economy because the abstraction in our systems of economics is incomplete without some conditional aspect of investment in speculative projects.

Some people may suggest that conditional investment could be offered by organizations on an ad hoc basis, but that is equivalent to saying that a huge hole in the abstraction in our systems of economics can be filled in as and when it is needed. Would we seriously suggest that individual organizations can introduce money as and when it is needed or that we do not need to worry about having stock markets because any individual organization that wants to sell "shares" can make ad hoc arrangements with investors? We recognize that these things need to be ubiquitous for any sort of scalability of abstraction. It is the same for conditional investment.

What We Have Scaled Up and What We Have Not Scaled Up

Money has had a huge benefit on human societies: money means that we still essentially have an economy based on bartering, but by introducing abstraction, people can essentially barter with people that they do not know. This is a powerful system. We have abstracted further with such ideas as stock markets. These abstractions allowed us to scale up exchange of goods and cooperation between humans but when we did all this we did not scale up the idea of *making cooperation conditional on the cooperation of others*.

A Stone Age Example

As an example, let us consider this rather contrived scenario in the Stone Age:

Ug has a great idea for something called a “wheel”. He wants to make a prototype. Ug is a thinker, rather than a doer, so he will need help from some of the more practical people in his tribe.

- Gng is good at shaping pieces of stone, so Ug wants him to make two pieces of rock into circular shapes.
- Arg is good at working with long pieces of wood, so Ug wants him to make an axle.
- Og is good at working with smaller pieces of wood, so Ug wants him to make the pieces that stop the wheels falling off the ends of the axle.
- The prototype is useless unless people who see it want their own wheels. It has to look good. Ig is good at making paint, so Ug wants him to make some special paint to make the wheel look fantastic.

The problem for all of these people is that any time they spend on the project will be wasted unless it is successful - and the project will fail unless everyone agrees to be involved. They all realize this. Gng says that he is not interested because if any of Arg, Og and Ig do not agree to get involved the project will fail and he will have made the round pieces of stone for nothing. Arg is not interested because it just seems too likely that at least one of Gng, Og and Ig will not agree to be involved and he will have made the axle for nothing. Og and Ig give similar answers.

At first Ug thinks his project is doomed, but then a simple solution occurs to him: he asks people to make their agreement to be involved in the project conditional on the agreement of the others. He goes to talk to each of the people again and gets the relevant agreement. When he has all the agreements he starts his project.

Such an approach is obvious to us, but it is not so obvious that our modern abstractions of cooperation allow for it. The modern equivalent of being asked to put skills and work into a project is being asked to invest money into a project, but there is no equivalent scaling up of the idea of making involvement in the project conditional.

The Solution

We need an equivalent to this idea of conditional support of a project, scaled up to deal with the way that support for projects is now abstracted.

The modern abstraction of support for a project is investment of money in a project, so the solution should be a way of allowing investment in a project to be conditional on others also investing.

How it Would Work

An organization (the “project organization”) has an ambitious project and wants to attract investment. It knows that many people will perceive the investment as difficult to obtain – which will make the investment difficult to obtain.

The project organization uses the services of a neutral party (the “intermediate”). The intermediate makes no claim about the chances of success or failure of the project, but simply manages conditional investment in the project organization.

Ideally, the intermediate would be associated with a high degree of responsibility in handling money: an ideal candidate for the intermediate could be a bank.

Investors can make conditional investments in the project organization and this involves depositing money with the intermediate. This investment may be in the form of *conditional shares*. Conditional investment is not real investment. A conditional investment is simply an arrangement between an investor and the intermediate to turn the conditional investment in the project organization into a real investment when the total value of conditional investment by all the investors reaches a predefined value.

Until the investor’s conditional investment is turned into a real investment – which may involve conditional shares being turned into real shares, the investor can withdraw the conditional investment.

Once the conditional investment has been turned into real shares it is now a real, conventional investment. The intermediate transfers the money to the project organization. The investor has no option to back out – other than the usual methods available to investors, such as selling shares.

This is not done on a one-off basis: the intermediate routinely manages the holding of conditional investments for many project organizations.

The intermediate may provide the option of a “conditional investment account”. The holder of a conditional investment account may allocate some of the money in the account to conditional shares in a number of project organizations. The intermediate may pay the investor interest on a conditional investment account: the money is, after all, deposited with the intermediate until the investment becomes real.

The intermediate may provide internet banking for a conditional investment account. This could allow an investor to transfer money into and out of the conditional investment account and to allocate money in the conditional investment account to different project organizations, or to use the money for more conventional purchase of shares.

The intermediate may serve as a point of contact between the investor and project organizations seeking funding, so that investors could access material prepared by project organizations to support their cases. This could be combined with internet banking. An investor could view details of various project organizations including the business plan, biographies of the board of directors, the amount of conditional investment sought and the amount of conditional investment already made and be able to contact them to ask questions. The intermediate could also provide forums to discuss the merits of various project organizations and possibly links to media reports on them (though this could be problematic as the selection of the media links to provide could raise issues of impartiality).

Transition from Conditional to Real Investment

The conditional investment becomes a real investment in a number of ways, including these:

- When the total amount of conditional investment by all the investors reaches a certain level, the conditional investment is automatically all turned into real investment without any further permission being granted by the investor. The initial making of the conditional investment and the leaving of money in it implies that real investment is wanted when the conditional investment from other investors reaches a certain level. This is the obvious method assumed in most of this article.
- When the total amount of conditional investment is above a certain level, all of the investors are contacted at intervals to ask if they are sure they want to proceed. The transition to real investment only occurs when the investors who indicate that they want to proceed have enough combined conditional investment.

These two methods of making the transition are essentially the same: turning a conditional investment into a real investment without asking the investor for further permission means that the act of leaving the money in such a conditional investment implies that the investor would give such agreement if asked. Human psychology, however, can be inconsistent in matters like this and may need to be taken into account.

The simplest way of considering conditional investments involves the money being deposited with the intermediate until the investment becomes real, but there are alternatives to this. As an example, if investors are to be asked to confirm their wish to make the investment real at intervals they could be invited to transfer the money to the intermediate at this time. This is not an approach that I personally favour.

There will be various combinations of features for the actual working of a conditional investment account and the transition to real investments, but this article is more about the general idea, so I will not go into these details too much.

When the transition starts for a group of conditional investments it is important that it proceeds for all of the conditional investment that is being considered. All of the conditional investments need to be turned into real investments at what, for all practical purposes, is the same instant. We do not want a situation where Investor A's investment is made real because other investors, including Investor B have also made conditional investments, and then Investor B pulls out a fraction of a second before the transaction is processed. An obvious way of dealing with this is to freeze all of the conditional investments immediately before the transition is made and then only continue if enough conditional investment is still available. The transition should be managed quickly enough, and the duration of freezing made short enough, that this is mainly just a software issue.

Timing

It may be asked what the motive would be for investors to actually make conditional investment when they could just delay and check on a website each day to see how close the investment is to becoming real, making their conditional investment at the last minute. If everyone does this, of course, even adequate conditional investment could be indefinitely delayed, so this issue may need some consideration.

It should be noted that this problem should at least be very much reduced when the initial investment is conditional because it does not involve exposure to any risk, so the only reason for delaying would be indecision or apathy.

The project organization may find it worth offering a small incentive for investors dependent on how quickly they make their investment. This incentive need not be large as it is not intended to get an investor to accept any extra risk.

Another issue is that there will be a limit on the investment that is available. This means that investors who wait until the last moment may run the risk of their investment not being wanted. If someone makes a conditional investment and the conditional investment is oversubscribed, the conditional investment should still be valid, however: other conditional investments will be withdrawn and if enough are withdrawn the investment will be wanted.

An investor about to make a conditional investment should be told the total value investment required and the total value of conditional investments already made and he/she should be warned if the conditional investment opportunity is oversubscribed. He/she may still choose to proceed because it may be that conditional investments are often withdrawn. When conditional investments become real, priority will be given to those who made the conditional investment first. If an investor withdraws a conditional

investment and makes it again later then the first conditional investment should probably be disregarded: when it is withdrawn the investor loses his/her place in the queue.

Different Levels of Risk

It is all very well for a project organization to allow investors to defer investment until there are enough investors, but the organization will need to operate in the meantime. It will need to perform preliminary studies and prepare a decent case for people to make conditional investments at all. The project organization is likely to need some funds from the start, although these may be only a small amount of what can be obtained by a transition from conditional to real investment.

The project organization can deal with this by defining different stages of conditional investment:

The first stage may not have any conditional aspect at all. People who invest at this stage are funding the project organization's attempt to generate enough interest in its ideas, and confidence in its abilities, to attract more investment later. This first investment has the highest risk, because if the project organization fails to obtain the larger amount of investment that it needs the investment is lost. The project organization should acknowledge this higher risk by making the potential rewards for these first investors greater.

More cautious investors could make a conditional investment that only becomes real when there is enough conditional investment from other investors to provide a certain amount of funding, with the total amount of funding required still falling short of what the project organization needs, but allowing it to increase its fundraising activities. At this stage there is still some risk of the project collapsing due to being unable to raise the funds that it will ultimately require, but as some funds have already been raised in the first stage the risk is reduced: the potential reward should be less than the first stage but still greater than the reward for investment in a later stage.

There could be a number of stages like this available – the number depending on the business plan of the project organization. The purpose of each stage would be to raise enough investment to allow an organization to gain enough conditional investment from investors in the next stage to turn it into real investment. Eventually the project organization reaches the final stage and has raised the funds it needs for its project.

Stages run concurrently: investors would not need to wait for prior stages to be reached before making conditional investments. As an example, let us imagine that a project organization's business plan has three stages of conditional investment. Investors could choose to make investment for any of these stages right from the start. An investor decides that he/she wants the least amount of risk possible and chooses to make a conditional investment for the third and final stage. He/she knows that the conditional investment may take some time to become a real investment because this can only happen when enough conditional investment for this stage has been made by other

investors. At the same time, a smaller number of other investors are making real investments at the first stage and the company is using these funds to promote conditional investment for the higher stages.

This may make it sound like the process of fund raising has to be unwieldy, involving many stages, but this is not the case at all. If a project organization thinks that it has a brilliant idea which will capture the imagination of the public and cause a rush to invest then it could use just a single stage in which it seeks the conditional investment needed to gain all of the money it needs. A different project organization may think that it needs to do a lot more work to raise the investment that it needs and is only likely to interest a small number of people initially, so it may use a number of stages.

Simultaneous Conditional Investments

A conditional investment is only an indication of the intention to make a real investment if there is enough other conditional investment. Until a conditional investment becomes a real investment the money can stay deposited with the intermediate.

This means that there is no reason why an investor should not be able to allocate the same money to a number of different conditional investments. Should one of these become real then the money is transferred to the project organization and any other conditional investments, or parts of conditional investments, dependent on this money are withdrawn.

Alternatives to Profit

The most obvious way of thinking of conditional investment is in terms of holding conditional shares which are later translated into real shares. The most common motive of investors would be to make money, but this may not be the case in all situations. There could be projects intended to give the investor direct access to some entity created by the project; for example a project with the aim of building an arcology could offer investors living space. There could also be projects where the reward for investors is a combination of profit and other gains. Investors would hold shares but would also expect more direct benefits. This would not be new: many existing shareholders are entitled to other benefits. All this would be a matter for the project organization to decide.

Conclusion

Our modern economical systems are based on abstraction and scaling up of the old ideas of bartering. These systems also allow abstraction of human cooperation on large projects. What has not been abstracted or scaled up is the idea of being able to make cooperation with others conditional on the joint venture having adequate offers of cooperation from other people to give it a chance of success. While this may be done on an informal or ad hoc basis, we do not have it with anything like the degree of scaling up of cooperation that is needed to have a complete economical system. The failure to have this particularly increases the chances of failure of speculative and ambitious projects – those that are most needed to advance our situation.

Conditional investment needs to be routinely available for ambitious projects. There are a number of ways in which it could be implemented, but some intermediary party is likely to be needed: banks would be ideal for this role. A bank could offer conditional investment services in the form of a conditional investment account.

I want to be clear that conditional investment like this would not be a panacea for all the problems with investment and economies. Startup companies with ambitious aims would still go bankrupt for other reasons, but at least it would deal with an artificial and unnecessary threat to companies.