

Financing Entrepreneurship in Protected Areas

Dr. Norman Wright
Dean, College of Business
Alfaisal University
Riyadh, KSA

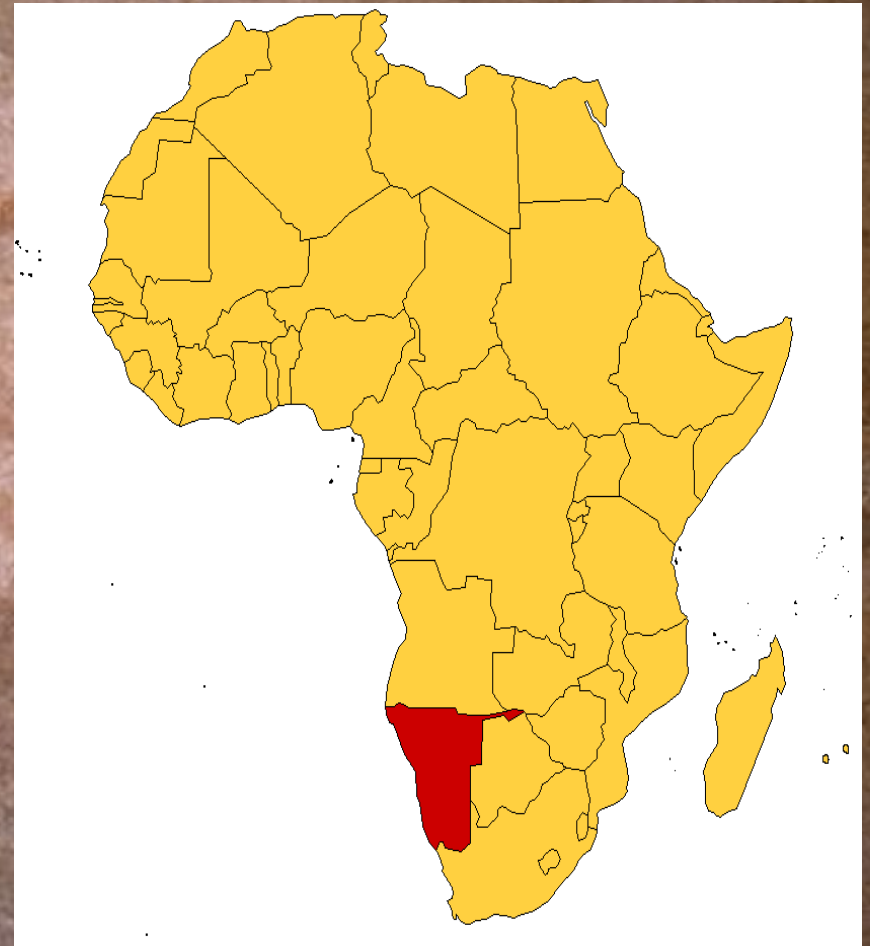
First International Conference on Entrepreneurship
King Saud University Entrepreneurship Center

Research Question

- How does one structure start-up capital in a rural conservation context to best meet multiple objectives that include but are not limited to wealth maximization?

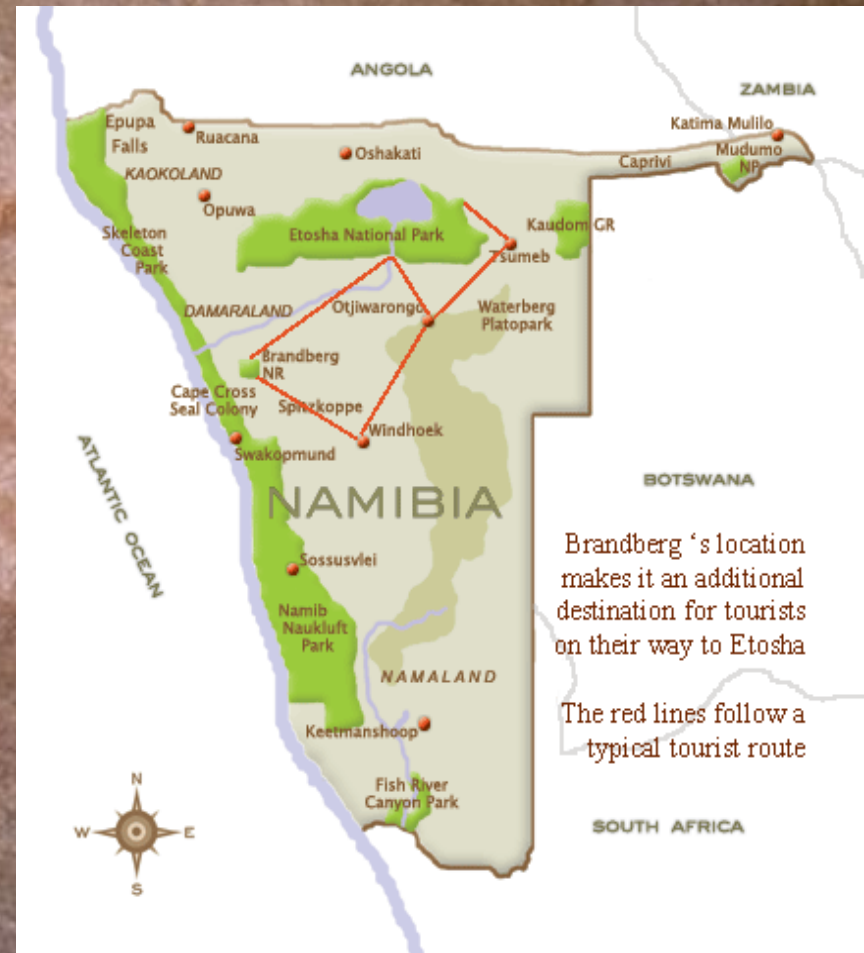
Namibia

- 35% of population unemployed
- Over 50% live below the poverty level
- Average monthly wage of \$200 (New Zealand) per month for a typical laborer



Tsiseb Conservancy

- 3 hours from Windhoek
- 2000 residents
- 50% self-funded
- Dual Goals
 - Conserve natural and cultural heritage
 - Promote economic development



Tsiseb Conservancy

- Significant natural resources
 - Springbok, Mountain Zebra, Kudu, Ostrich, Oryx, Leopard, Desert Elephant, and others
 - Brandberg mountain
- Significant cultural resources
 - White Lady rock art
 - Other rock art sites



Economic Development

- Grants
- Information Center
 - Internet café
 - Vicky's coffee shop
 - Daureb craft store
 - Daureb mountain guides information center
- Daureb mountain guides
- Trophy and food hunting
- White Lady Lodge
- White Lady campsite



Perpetual Community Business Fund

- Goals
 - Economic growth
 - Ecological and cultural sustainability

Research Question Again

- Practical question: What form of financing will create the best chance of success for entrepreneurs while still meeting Conservancy goals of broadly shared economic development and natural and cultural resource protection?

Current Practice

- CAMPFIRE in Zimbabwe (Kaufman, 1999): Equity in early stages then turning to debt
- Guyana Hardwoods (BMI, 2008): Mostly equity with some debt
- Namibia (Hecht et al, 2005): Mostly equity with a few debt options
- Various countries (Claessens and Tzioumis, 2006): Equity in early stages then turning to debt

Corporate Literature

- Cost of Capital
- Agency Costs
- Asymmetric Information
- Product or Market Interactions
- Takeover Considerations

Start-Up Literature

- Tax Advantages
- Growth Opportunities
- Size
- Asset Structure
- Organization Type
- Owner's Characteristics
- Liquidity
- Bankruptcy Costs
- Control

Start-Up Literature

- **Tax Advantages** (McConnell and Pettit, 1984)
 - same as corporate literature though somewhat less important due to level of profitability and lower tax bracket
- **Growth Opportunities** (Huygghebaert, 2003; Michaelis et. al., 1999; Brander and Lewis, 1986)
 - same as the asset substitution argument in the corporate literature

Start-Up Literature

- Size
 - Argument is that equity issuers are less willing to resolve information asymmetry issues for smaller companies leading to higher equity costs and a preference for collateralized debt
- Conservancy context:
 - All start ups are likely to be small but with lower levels of information asymmetry due to small population of the Conservancy and business opportunity homogeneity. This leads to relative indifference between debt and equity.

Start Up Literature

- Asset Structure
 - Lack of business history creates reliance on tangible assets to serve as collateral for external funding
- Conservancy context
 - Information asymmetry is not the issue
 - Tangible asset recovery through first priority as debt holder leads to greater use of debt as compared with equity

Start Up Literature

- Organization Type
 - Credibility and taxation issues vs
 - Audit cost and cost of providing public information
- Conservancy context
 - Non-issue as the size of the business precludes public corporation status
 - Costs too high to make public status of any value

Start Up Literature

- **Owners' Characteristics** (Changanti et. al., 1995; Romano et. al., 2000)
 - Non-pecuniary goals (higher debt)
 - Risk preference (higher equity)
 - Gender (mixed results)
 - Age (higher equity)
 - Education & experience (higher access to debt)
- **Conservancy Context:**
 - Effects seen as holding from the entrepreneurs' perspective
 - Additionally, Conservancy may seek equity position in an effort to directly influence decisions towards non-pecuniary objectives.
 - Opposite effect of that normally pitched in the start-up literature

Start Up Literature

- Liquidity (Jones, 1979)
 - Patient vs impatient capital
 - Forced repayment of interest and principle increases risk of bankruptcy
- Conservancy context
 - Holds though the debt holders (the Conservancy) in this case may be more patient as the transaction is less arm's length in nature
 - Probably more important where tangible assets exist

Start Up Literature

- Bankruptcy Costs (McConnell and Pettit, 1984)
 - Higher bankruptcy costs for small as compared to large firms leads to greater use of equity
- Conservancy context
 - Costs are high in that second chances may not be given but this is also true in the case of an equity-based closure
 - Social costs of having failed in Damara culture

Start Up Literature

- Control (Paul et. al. 2007; Shrivatava and Grant, 1985)
 - Small business owners prefer debt as they want to maintain control.
- Conservancy context
 - Should be similar but may be culturally bound
 - Conservancy seen as a partner with expertise and deep pockets so those without other possibilities may well be willing to concede control

Conclusions

- Arguments in Favor of Equity
 - Conservancy: provides control
 - Non-pecuniary interests
 - For the purpose of controlled mentoring
 - Entrepreneur:
 - Liquidity
 - Short-term orientation allows them to take something home today
- Arguments in Favor of Debt
 - Conservancy
 - Debt discipline
 - Tangible assets where they exist
 - Entrepreneur
 - Debt discipline
 - Bargaining power
 - Control

The Saudi Arabia Context

- Tax issues are irrelevant
- Much of the rest of the literature would seem to be applicable in terms of a framework to approach microenterprise financing issues.

