

Investment Vehicles for Small and Medium Enterprises



What is an SME?

- On average, defined as a business having 5-100 employees.
- SMEs drive the economy. In the United States, over 90% of all businesses are classified as small.
- Areas without strong SMEs do not have strong economies.

Barriers to Cleaner Practices

- Lack of Information
- Lack of Available Financing
- Lack of Interest

Barriers to Financing

- Seen as an unprofitable sector
- Seen as high risk
- Associated environmental problems seen as even more risky

Investment Vehicles

- Existing Banks, Credit Unions, Microfinance Institutions
- *De Novo* Financial Institutions
 - Regulated Entities
 - Traditional Loan Funds
 - Risk Capital Funds
 - Guarantee Funds

Existing Institutions

- Pros

- No start-up costs
- Localized approach, may have branch system
- Strengthens existing institutions

- Cons

- Subject to bank management's attitude
- Institution may discontinue program after credit line or TA dries up

New Formal Institutions

- High start-up costs, human resource intensive
- Subject to regulations
- Mission-driven banks and credit unions are a growing industry in the West
- Can have large impact through a single institution



Loan Funds

- Traditional forms of financing
- Can be very small or very large (ranges from \$500,000 to 30 million in US)
- Lean and flexible, small target market
- Capital is generated from governments, foundations, individuals, and businesses

Risk Capital Funds

- Mezzanine, quasi-equity, or equity investments
- Much more risky, but higher returns
- Focused on high-growth industries
- Usually cover more geography than traditional loan fund

Guarantee Funds

- Not direct lending, but requires same expertise
- Helps institutions mitigate risk or perceived risk
- A centralized process, but can be easily streamlined and cover huge geographies.

ShoreBank Pacific

- First Eco-Bank in the United States, founded in 1997
- Covers Pacific Northwest, particularly the rural areas
- Employs a bank scientist to help underwrite loans
- Includes environmental mission score in overall decision-process

Case Examples

- Capital Divers, Inc.
 - Eco-tourism, water protection
- Environmental Engineering
 - Innovative technology
- Stormwater Management, Inc.
 - Uses natural media to filter road runoff
- Organicare, Inc.
 - Natural fertilizers stay in the soil
- Clean Water
 - NGO water assn providing access to potable water