

# [Green banks](https://assignbuster.com/green-banks/)

[](https://assignbuster.com/)[Business](https://assignbuster.com/essay-subjects/business/)

The banking industry has been undergoing a revolution for the last two decades. Not all institutions bearing the name bank suit the description of the conventional bank.

It may be the same in structure but different in approach. Green banking is part of wider concept of ethical banking in which banking are becoming conscious of the impact of their loans and investments. They demonstrate environmental and social responsibility hence demonstrating the concept of ethical investment, corporate social responsibility and other aspects such as consumerism (Lahn et al, 2005). Likewise, new banks, adopting an untraditional approach to the client’s needs is on the rise. These banks are Green Banks.

They offer entrepreneur’s support, checking and savings accounts just like the conventional bank. The departure from the norm is the green twist. They operate on a triple-bottom line basis as the principles guiding their approach. The triple base approach is the considerations that guide these banks before they can grant a loan to entrepreneurs. They consider social impacts on equity scales, being the loans leading to equitable outcomes.

The second base is the energy coefficient, being the loan usage harmful to the ecosystem and the environment. Moreover, the third base is the sustainability aspect, which interrogates the life of the benefits of the funds. This banking is also adopts the name sustainable banking since it considers whether their investments are financing a course beneficial to the society, for a reasonably appropriate period. It beats logic to invest in projects with a one-year period of benefit, yet, there are competing ventures with better sustainability. Green banking is introducing this revolution as a source of finance for startups (Highlands Capital Partners, 2012). The green revolution is shaping up the US market with green banks opening in crucial states including California’s New Resource Bank, Washington’s Shore Pacific Bank, Green Bank Texas, Florida’s First Green Bank among others (Galbraith, 2009).

The green banking is indeed a source of funding for start-up companies but an essential feature in the overall field of financing start-up. It is an all round consideration of funding which, not only offers a chance to ethical ventures, but also demands that entrepreneurs develop responsibility when starting companies. Ethical shortcomings in the business are rife in the US. Companies are receiving blame on a number of social evils. For instance, McDonald’s company is facing numerous lawsuits for contributing to the obesity epidemic, food industries have left the American people with few choices and eating a healthy diet being a dream to many.

It is a crucial part of this study to indicate that the landscape of financing start-up companies is departing from the interest-collateral question to societal driven considerations. Some companies will miss funding on the pure basis of the idea, and type of business they propose and not the absence of funds or the high cost of funding (Lahn et al, 2005). Loans Backed by the Government In instances of risky business ideas, the government may come in and pledge to repay a sizable part of the debt in the event that the entrepreneur defaults payment. The situation is so that the government aims at countering too risky approach of financial institutions. It guarantees the repayment to encourage lending to start-up companies that would otherwise face denial of the opportunity. The US government has a number of programmes within the guarantee approach, which include: The US Small Business Administration Guaranteed Loan Programs The program runs under the federal agency, Small Business Administration aiming at assisting small businesses.

SBA offers technical, contracting and financial support with respect to the entrepreneur’s location, industry and the stage of development. SBA is a pure guarantor offering no loans itself; it has an Energy Conservation Loan campaign, in which it guarantees loans for start-ups advancing energy conservation pursuits. The SBA also propagates a pollution control program that lends funds to install pollution reduction facilities. The most prominent feature with respect to financing start-up companies is the Loan Program under the SBA. It lends funds to start-p and continuing companies for a margin up to 2million USD.

The critical space of government-backed loans receive a firm emphasis from the previous the recent proposal to raise the 2million USD cap on the loan up to 5million USD (Hosmer, 2009). The fund is available to a vast majority of purposes majorly start-up, purchase of equipment, acquisition of property, debt restructuring, renovations among others. Studies indicate that a vast majority of US banks work with this programme. The allocation of loans under this scheme is on a case-by-case basis. Their structure is favorable in terms of interest rates and long-term loans. SBA programmes have limitations in qualifying for them such as Express Loans that are in category of Community Express loans towards borrowers of underserved communities.

Patriot express is loans that patriots qualify to obtain. This demands over 51% of ownership. A Small Rural Lender Advantage Loans (S/RLA) advance loans to high unemployment areas and Certified Development Company Loan Program (CDC) lending up to 2 million USD. SBA restricts the use of this to fund start-up companies, which makes it indispensable to mention in this paper. The SBA also runs a Microloan Program that loans up to 50, 000 USD that finances start-up or comes in the expansion process.

It is evident that SBA is an extensive form of government guaranteed loans with a diverse portfolio of packages (Galbraith, 2009). US Department of Energy (DOE) Loan guarantee program The DOE is a government guarantee program aiming at projects that reduce or avoid air pollution. They are large finances that start-up companies within the scope of pollution reducing companies tap. Continuing companies, upon starting can tap into this funds, for instance, Solyndra, a company embracing the alternative energy concept through manufacturing solar benefits from a 535 million USD guarantee under the DOE programme. However, the hampering hurdle is the long registration process in acquisition of the loans (Lahn et al, 2005). Venture Capitalist In the absence of funding from traditional sources, start-up entrepreneurs keep hope in venture capitalists.

They are also referred to as VCs rarely invest in start-ups or companies in their early stages; however, even investors with timely seasoning secretly hope that a VC would appear from the blues and invest in the firm. Venture capitalist assumes the risks inherent in small start-up in exchange of a share of ownership and control. Venture capitalists sit in boards of such a firm as directors with a big share of control in the firm. Unlike banks and other sources of finances that look at historical information and performance projections; venture capitalists make use of their experience and sieve through the intricacies of a new venture. They have an eye for exceedingly promising firms. A bankers’ concern with risk aversion is genuine, but they lack knowledge and expertise in financing risky ventures, hence, the adverse nature (Hosmer, 2009).

However, venture capitalists demand a lot from a new start-up, hence only few qualify for their funding. Normally, a venture capitalist looks for the long-term aspects and returns of the start-up company in contrast with the banker’s short-term consideration. The capitalist invests where he expects returns exceeding five or six times the initial capital outlay. Few companies can meet this threshold; therefore, few attain a VC’s funding. Since venture capitalists understand and appreciate the difficulty in judging the possible returns of a start-up, they set rigorous vetting processes that few entrepreneurs meet (Highlands Capital Partners, 2012). Skeptics argue that laying hands on a venture capitalist and convincing him/her to invest in the start-up is less likely in comparison to winning a charity.

A study by Ernst & Young indicates that VCs invests an average of 3. 1 billion USD in later stage companies, while being above 26 million USD in start-up companies. There is scanty evidence on the activities of venture capitalists perhaps due to subjection to modest regulation. Additionally, a VC invests in private firms, which are not subject to disclosure requirements applicable to other forms. MacDonald& Associates Ltd for instance offers finances to Canadian companies that are private (Christoph et al, 1999). According to Small Business Administration study, on average, a venture capital firm receives over 1000 proposals annually, of which only less than 10% proceed to get funding.

It is imperative to note that the product or service at the heart of new firm’s idea is the chief object of interest to the VC. VCs then hire professionals to screen, carefully the remaining 10% firms at high costs. As result, VCs rarely invests in low capital requiring companies since the screening costs outstrip the benefits or funds sought. Unless a small capital requiring venture is intriguing and exceptionally unique, VCs dismiss the rest (Lahn et al, 2005). Despite their clear record of not funding start-ups, with a reputable business being not so long a shot, so how does a young entrepreneur attract the interest of a VC to finance his start-up? .

CNN advocates for networking techniques in pinning the VC down by tracing them with a foolproof business plan. This can be only possible upon understanding what VCs look for a new company. First, the VC will consider the management structure of the company. VCs hold the belief that poor products are marketable, distributable and profitable with a strong working team and insightful management. They also believe that a superior product is equally ruinous in the hands of incompetent, non-visionary management.

Therefore, the proposal must have the full description of management and their competencies. It is imperative to note that start-up companies are not likely to have any managerial structure reducing their chances of funding. It is also crucial to appreciate that analyzing managerial skill is a difficult task. Secondly, the VC looks for that distinctive aspect of the new start-up that sets it apart from the rest. This unique aspect could be in the product, process, market or their combination.

It could be in the managerial or technical skill. Nevertheless, whatever it is, it must be giving the company a competitive edge (Field, 2007). It would not be sufficient of this review would it fail to consider the costs to a start-up company upon selection for funding. SBA emphatically states that the cost to a new start up is extremely high in many occasions. The costs are in terms of either ownership or control.

In ownership, the VC may acquire 10%-90%. The amount of ownership is dependent on the funds provided, the financial stress of the company or its return projection. Studies are quick to indicate that, VCs are not greedy to the extent of acquiring more than 40% of the business because this kills entrepreneur zeal and gusto. They would rather leave the companies in the entrepreneur’s hands. Studies do indicate that the entrepreneur’s value is often lower than the VC’s value in ownership sharing.

The entrepreneur’s value is his idea alone in many circumstances and his time investment (Lahn et al, 2005). The second cost of venture capital to an entrepreneur is the control aspect. Venture capitalists have little interest in assuming control over start-up companies they finance. This is due to their managerial constraint, as such, they cannot assume managerial role of every company they finance. They avoid participating in strategic decisions that would alter the basic components in the product or ingenious concept of the entrepreneur. However, the venture capitalists will not play ignorance to situations of financial trouble.

In instances that the financed company is facing troubles, the venture capitalist usually caters for such by including a clause in the control negotiation draft. The clause allows them to take control of the company and salvage their investment. On other normal occasions, the venture capitalist firm will just require the nomination of one of their members as a director. The other types of costs may include charges, debentures with clauses of conversion among other agreed upon costs (Business Asia, 2008). ASB and other research emphasize that start-up companies are unlikely to get finances from venture firms. The stages above and understanding of what the venture capitalists look for are likely to offer an entrepreneur with an opportunity.

Good proposals and attractive business ideas will ensure that, at least, the idea gets a review on viability. It is paramount to note that companies secure financing of venture capitalists benefits from capital and expertise (Wiltbank & Willamette, 2007).