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White Paper

Asset-Based Financing:
Supporting Sustainable Local Development

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WHITE PAPER

Asset-Based Financing: Supporting Sustainable Local Development

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Version C**

This paper addresses the challenge of transitioning the local economy to provide services in a sustainable way in a shrinking economy. It proposes a financial instrument called UNIT OF TRUST (UOT).

The paper aims to giving the general reader a basic overview of how such a scheme would operate. Please refer to the appendix or contact us at AVBPⁱ for a more detailed view of how a UOT scheme might function in your particular financial environment.

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Business as usual is a complicated global network

Our retail system has evolved to become complex, capital and fuel-dependent. Mass production, cheap energy and specialization has allowed the transport of goods all over the world and economies of scale never seen before, giving access to cheap goods. These cheap goods are increasingly being sold in large stores located on cheaper land outside towns and cities.

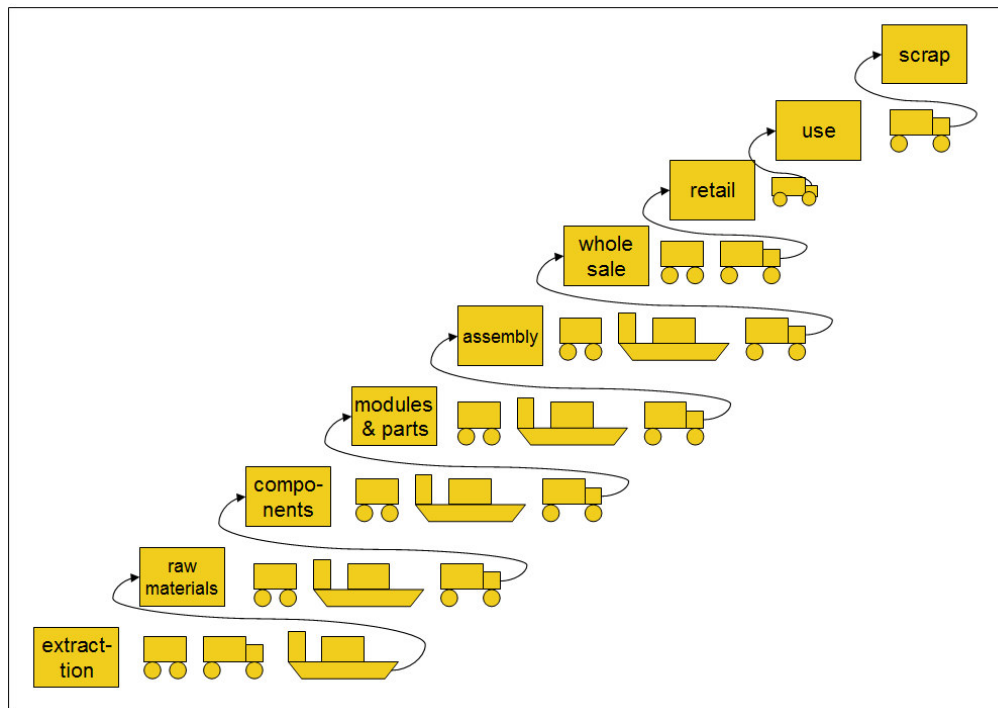
Today's huge and complex retail system relies on economies of scale to such an extent that, for example, electric kettles are manufactured in only one or two places in the world with a handful of component suppliers. Tea is controlled globally by three main companies.

Today's system is highly complex. Those with money to invest in advertising, sales outlets, branding, etc. are able to compete with smaller organizations who have difficulty navigating the complexity.

Local businesses, especially smaller ones, struggle to compete in this context as they

- Pay local tax rates and wages
- Cannot operate on these economies of scale.
- Are competing against branding and high levels of advertising
- Do not have access to capital to invest in expansion

The challenges facing the retail model



The retail supply chain

Higher fuel prices, shrinking economies and credit crunch

In the long term, fuel costs are expected to rise, both from carbon dioxide emission taxation and oil production shortfalls compared to demand.ⁱⁱ At the same time, as the world economy suffers recession, access to capital will be made more difficult.

Just in time systems lack resilience

Today's system is far from resilient in terms of keeping employment levels stable. As trends change, capital built up in the form of production facilities or finished goods becomes worthless. For example: when stocks of toys remain in warehouses in the USA, within a few weeks a toy factory in China closes. Rises in fuel prices and strangled lines of credit leave unsold vehicles in dealer's showrooms decimating profit margins overnight.

The system is also transport-dependent and thereby fuel dependent. The use of lower cost manufacturing facilities in certain parts of the world means transport and logistics. Fuel prices, shipping shortages, and sudden changes in taxation rules can all wreck the business models of firms.

When a shrinking economy translates into job losses, the local consumers have less to spend, profit margins erode and store closures follow. Added to this, higher energy costs reduce the competitiveness that comes from economies of scale, more local solutions would give the advantage of relatively cheaper goods and more people in jobs able to buy them.

A return to more local business would reduce the fuel component of goods and services and stimulate local businesses and jobs.

However, transitioning from the present retail model to a more localized one requires investment and changes in the way we view business.

The call for relocalization

Several organizations focusing on sustainable development, among them the Post Carbon Institute, have called for relocalization.ⁱⁱⁱThe main elements of a relocalized society are

- A large proportion of locally produced food.
- Local workplaces with radically reduced commuting.
- Energy production locally, removing the dependence of fossil fuel.
- Greater investment in social capital and social enterprises.
- Investment in larger projects, built for coming generations, like water power, rather than investment in energy intensive infrastructure like out of town shopping centers.

The Post Carbon Institute cites the following benefits of such an arrangement

- Stabilized, more resilient economy independent of fossil fuel prices
- Reduced emissions and stewardship of the environment to ensure high crop yields and ecosystem functioning without artificial input
- Longer term investment

“ The solutions of the past are often not robust enough under the conditions of global change and need to be re-thought and re-implemented. ”
Antony Burgmans, chairman, Unilever N.V.

What is sustainable investment?

One way to see sustainable investment is to consider the significance of an ordinary, every day transaction, where you purchase something from a local store.

To what extent do the use of the products and the supply chain that brought the product to you ...

- Create a sense of pride in you that you are involved in it?
- Contribute directly or indirectly to your well-being?
- Require constant inputs of money to provide the services?
- Depend on non-renewable fuels?
- Create waste that is accumulating and needs taking care of by society?
- Deplete the available stock of metals and minerals in the Earth?

- Pay the workers along the chain enough for them to support their families?
- Contribute to the prosperity of the communities in which these companies operate?

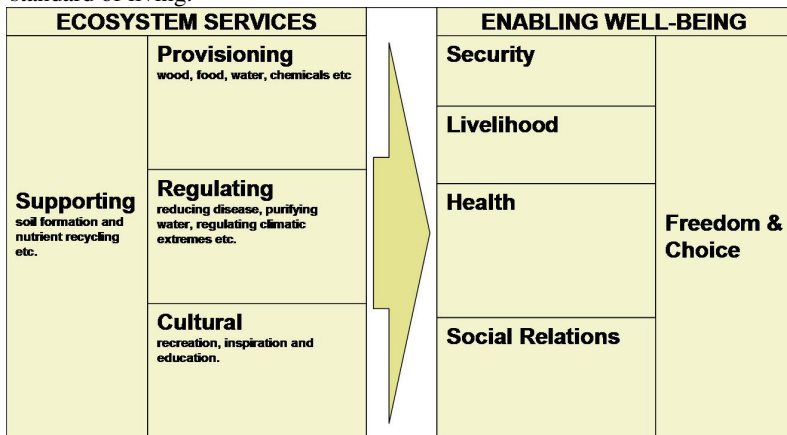
An ideal set-up would function as a local market place in earlier times. Goods are produced locally, taken to market and sold and used locally.

From our point of view, the ideal transaction would be one where:

- You make an initial investment and this would go on to give services in the long term
- Payments would support systems and practices that could pass on to coming generations
- It would ideally enhance the ecosystems it existed in, rather than depleted them
- It contributed to community prosperity

Sustainable investment strategies ensure eco system services prevail

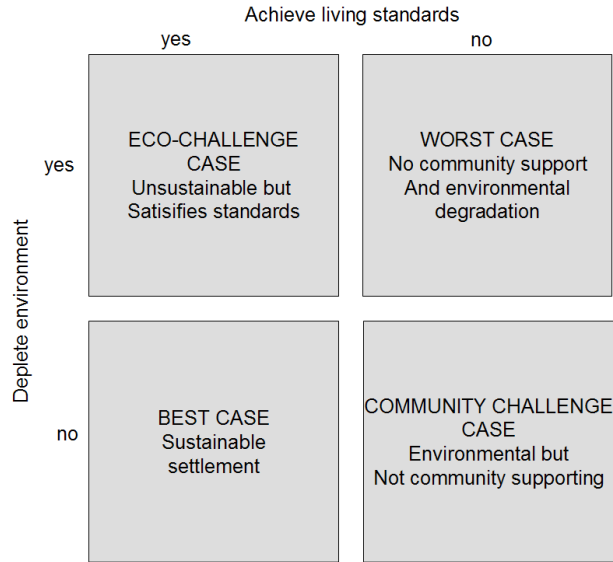
Sustainable strategies provide living services whilst preserving or enhancing the surrounding eco system. When financial capital is flowing in society, it is easy to forget that the system itself is relying on services from mineral resources in the Earth and ecosystems to produce the services that money buys. The model below comes from the Millennium assessment.^{iv} It illustrates the significance of the ecosystem in providing a standard of living.



Invest in providing a standard of living sustainably

Supply chains can burden eco and climate systems by emitting large amounts of pollutants. The businesses operating in these supply chains are permitted by the governments that regulate them. This passing on of the negative consequences of supply chains is called externalization of costs in economic terms.

A matrix of outcomes can help to illustrate sustainable thinking. Achievement of living standards on one dimension is mapped against environmental depletion. (This includes depletion of both mineral deposits and disruption of climatic and biological systems.)



The worst case is where costs are externalized, negatively affecting climate and eco systems and a standard of living is still not achieved.

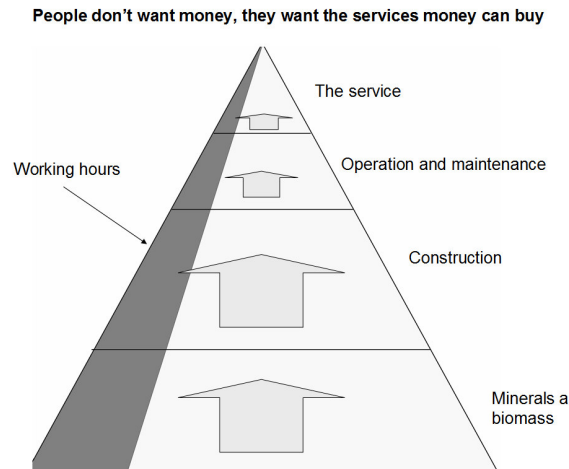
The next worst, the eco-challenge case, is where a standard of living is achieved, but at the expense of the eco system. This situation is temporary as externalized costs will come back for future generations to pay. One example would be the degradation of agricultural soil which costs more and more to achieve yields.

The third case is where eco systems are preserved but a standard of living is not achieved either.

The true sustainable situation, best case, is where a standard of living is achieved and climate and eco systems are functioning for coming generations.

Services to provide a standard of living rest on three main layers

As seen below, supply chains are complex in modern society, the model below shows the various layers of services required to produce those services that make up our standard of living.

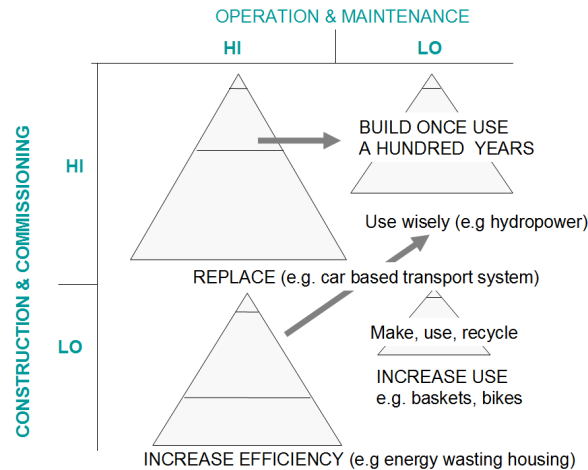


At the base, is extraction of minerals and biomass. Next, a technical infrastructure is constructed, this consists of everything from tools to buildings to components to machines. These installations need inputs of mineral, biomass and manpower for the next layer, operation and maintenance. The final layer is the production of the service itself.

On example is housing. To get the service “roof over your head” massive extractions of materials have taken place, a whole infrastructure of tools, roads, factories has come together to support the building and then operation of the building that provides this “roof over your head”

Four main categories of technology to invest in; two are sustainable

Compare of strategies for technical and social infrastructure “living arrangements”



We identify four main types of technology application. These are in a matrix with a dimension of fossil, mineral and biological inputs needed for construction, and the other dimension is inputs for operation and maintenance.

High inputs needed for both construction and operation: this is the least sustainable category and a poor long term investment. The automobile is an example of this. After 12 years the car is worthless and has used up as much fossil fuel to run as it took to build. A sustainable approach would be to increase the life time of the equipment whilst reducing the energy inputs needed, with rail based traffic for example.

High input for construction, low for operation. This is what we call build once use a hundred years. Houses are examples of this category. Increasing sustainability here entails making the building more long lasting whilst reducing energy dependence.

Low input in construction, high input in use. One example might be cheap oil lamps. The long term cost for the oil is considerable; even if the amount of money spent each week might be small. One strategy would be to move to, say, solar panels. A higher initial cost, but light for many years of operation. Grameen Shakti^v in Bangladesh is pursuing this strategy. They are offering solar solutions on installment payments equal to the amount paid for oil.

Low input, low operational use. A good example of this is basket weaving, Products that can be made by hand from local materials are far more sustainable than products like plastic bags that require fossil fuel inputs and long supply chains. The used plastic bags require energy to recycle them whereas baskets return to the eco system.

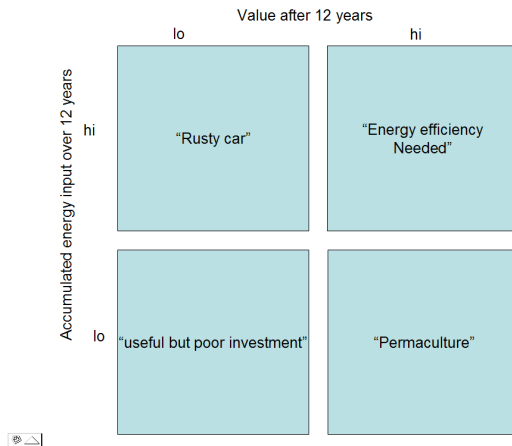
Sustainable Investment

What characterizes sustainable investment is when it:

- Contributes to providing a standard of living in the areas water and food, shelter, clothing, well-being and health, social cohesion and security.
- Provides services either as a “build once use a hundred years”, or through small inputs of materials both in manufacture and operation.
- Puts biological material or mineral back to be reused recycled or repaired.
- In its extraction, construction, production, operation and maintenance or use it does not harm ecosystems.

The range of services that might fall under the category of sustainable are those basic to support of life:

- Accommodation
- Food
- Clothing
- Health and well being
- Social cohesion



As can be seen from the matrix above, investing in solutions that require high inputs over their life time are poor investments. Permaculture is a term normally used in agriculture, but can be applied to best case sustainable investment as well. After an initial cost, the investment produces returns without the need for massive fossil fuel or other energy inputs.

Challenges of relocation

A more local, friendlier, long term sustainable investment in relocation of communities is therefore a compelling proposition that many would like to embrace. Many small and medium sized businesses would like to put into action an investment plan to relocate.

However, finding the investors and capital for such a move often proves problematic, as the system is locked in to the present way of doing things. Whilst the majority of businesses are small and the majority of the population work in small businesses, as the system stands today, the majority of capital and the main flows of money are to large, stock market listed corporations.

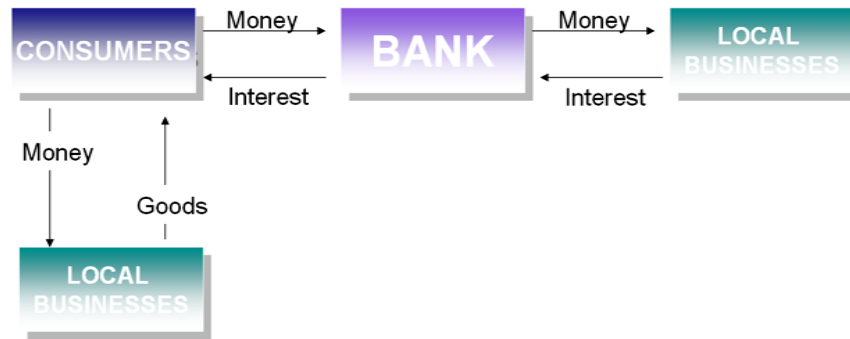
Taxation systems too, work against building up sustainable practices. They favour replacement of human labour with fossil fuel based mechanization. One gallon of petrol, run through agricultural machinery, produces the work equivalent to three weeks of a farm labourer. The tax paid on three week's work is hundreds of times higher compared to the tax on fuel. Again, even as fossil fuel shortfalls hit, businesses are still penalized for hiring and encouraged to automate and mechanize. ^{vi}

THE UNIT OF TRUST MODEL

Main components: The Unit of Trust Fund run by a Bank

The existing model: debt-based lending

The way a Unit of Trust scheme might work can be clarified by considering a model of the way a local bank, like a savings bank, works.



Consumers deposit money in the Bank, and this money can be loaned to local businesses for them to use to set up services to offer to consumers. In fact, due to fractional banking practices, banks can lend many times more than the money they have.

The local businesses, in order to cover interest payments to the Bank, put prices up. On the other hand, consumers can receive interest on their deposits.

A simpler model to stimulate local businesses would be for consumers to invest directly in the local business. As it is goods they want, not the money itself, the local business can provide the service at a lower price or even, as part of the investment agreement, allow the use of some part of the businesses inventory at cost price.



The advantages of this model for the consumer are:

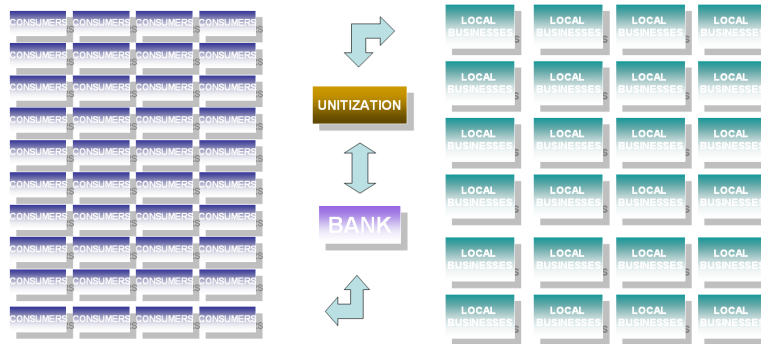
- Reduced cost of goods
- Influence over local supplier
- The advantages to the local business:
 - Capital for local businesses enable them to provide higher standard of service
 - Long-term customers

However there are some disadvantages:

- The consumer is required to do a lot of research into the stability of the local business before being convinced their investment is sound

- If the consumer moves to another area, they may not be able to sell the investment to anyone else
- For the Business, there is some work involved in working out a reasonable investment agreement and finding suitable investors

Envisage what would happen if *many* consumers and businesses would like to try the scheme.



UNITIZATION

Simply put, the Bank or another institution creates an investment instrument given a defined form and value. For example, one unit could be given an initial value of \$1000.

Local businesses would be asked:

- What capital do you need to develop your business? (How many units?)
- What terms and conditions could you apply to the investment?

Local consumers would be asked

- What goods and services do you see yourself needing long term?
- How many units would you like to invest in securing these services and what at what terms?

The Unit of Trust Fund then, would be a fund where consumers could invest in multiples of, say, \$1000 in local businesses.

In this way, the bank goes from being a credit intermediary to being a service provider.

This model offers several advantages

The bank does the analysis of the soundness of the business for the consumer. In approving the Unit the bank is stating that it has done its analysis and the local business is within the Fund's guidelines.

The consumer benefits from belonging to a larger number of consumers. If they want to move to another area, or change local business, they can sell their UOT to another consumer.

Consumers also get the advantage of being able to invest in several local businesses and spread their risk as with any other investment. Especially agriculture has good years and bad years, and some crops do well some and not others.

As the scheme starts to work, more will be interested in participating, creating investment capital for local companies that might otherwise leave the area.

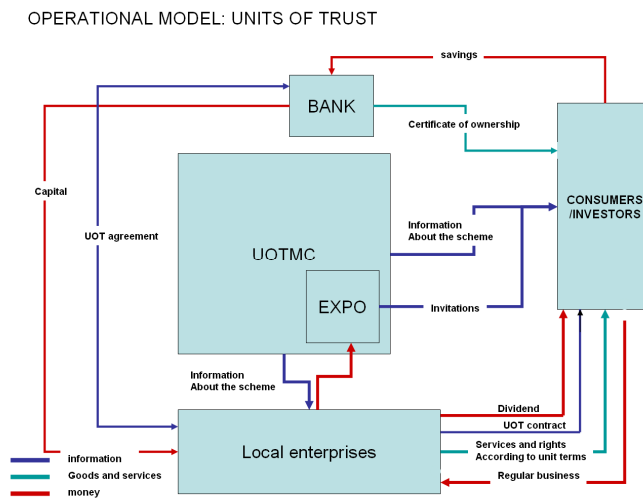
Main components: The market place

For the scheme to work, a local market place is needed where buyer can meet seller. There is no substitute for meeting face to face and visiting a business in operation and meeting its owners. Therefore we suggest:

- A regular Expo, or fair, where the Bank is on hand to explain who its scheme works and contributes to sustainable development via relocalization, and the local businesses are on hand to explain their capital needs and what their businesses offer investors.
- A regular “try before you buy” visiting program, where potential investors tour local businesses to get an insider view.
- Website, with accompanying brochures, videos, downloadable application forms etc.
- Training and education programmes for local businesses in how to set up investment agreements, clarification of the terms of the scheme and other entrepreneurial assistance.

The business model and operational model

Exactly how this sort of scheme will work depends on local conditions and opportunities. Below is a general sketch of the flow of information, goods and money.



Starting with the UOTMC (The Unit of Trust Marketing Company) Local businesses are informed about the scheme and how it works. They are offered helping setting up their own Unit Agreements and are invited to meet potential investors at the local Expo.

The UOTMC sets up a local Expo and invites potential investors/consumers to inform them of the opportunity and to give them the opportunity to get to know local businesses.

At the same time, investors can deposit money into their UOT account in the Bank ready to invest.

When investors identify a suitable opportunity they take the application form to the Bank and request the purchase of one or more units. On signing, they start to enjoy the benefits set out in the terms of the Unit.

How each entity is compensated financially for their services.

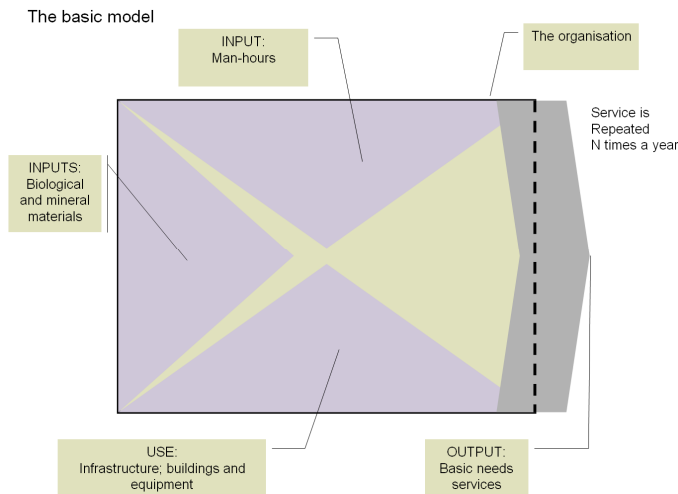
The Bank can take a percentage for the creation and administration of the UOT. For example, if the investor buys a UOT for \$1000 the bank can charge, say, 1% for the set up of the fund. It can also charge a yearly service fee, both to the investor and to the local company.

The UOTMC can charge a fee for the local company to participate in the EXPO and charge for its education and training.

Putting together a UOT offering

Entrepreneurs interested in joining a UOT scheme need to work out a UOT offering for their customers/investors. The UOT MC could help entrepreneurs with this service. Our experience with focus groups in Sweden suggests that consumers find it a lot easier to envisage this kind of investment than entrepreneurs. The process below is simplified, some operations may require quite extensive analysis and calculations before arriving at a compelling offer.

Step one: modeling the enterprise



To aid the unitization process, a simplified model of the enterprise can be helpful. As shown in the diagram above, any operation has an input of biomass or minerals in the form of raw materials or components (technical nutrients) and man-hours and/or service hours. The operations need technical and biological assets (bottom pane) that make up the infrastructure of the operation. Examples: workshops, tools, fields, cows.

Together, these three inputs result in the production of a service.

Step two: clarifying the service as provided on a yearly basis

Any enterprise interested in sustainable investment should begin by identifying how their services provide the basics of life for customers. This is an important step, as UOT schemes provide necessities rather than luxuries.

For any customer, what would be a reasonable yearly consumption/use of their services? At what frequency is this service delivered? These should be defined in quantifiable units, such as kgs, litres, sessions per year or per week.

Step three: clarify the investment needed

The total value of the infrastructure can be calculated at this point. This includes infrastructure already in the firm and new investments required to provide an annual service.

Step four: unitise

Given the total value of the infrastructure, this is broken down into units of, say \$1000 or whatever the local scheme has decided on. For example, a sheep-rearing operation might put the value of the sheep and a planned slaughterhouse at \$500,000. That means there are 500 units available.

Step five: usufruct and production

The entrepreneur needs to list what the investor/consumer might be interested in receiving in terms of output from the operation, as well as what facilities they might like to utilize. Usufruct is a legal term meaning “right to use”. Some examples of output: imagine an entrepreneur owns and runs an orchard. A certain amount of fruit could be delivered as part of the production. As an example of usufruct, the orchard possibly has a meeting spot, with tables and chairs which the investor can book for parties and meetings. Other usufruct examples would include being invited on courses that teach preservation and cooking of orchard produce. Whether or not this produce delivery or usufruct use is free or comes with a fee attached is part of the next step.

Step six: operational costs and general offering

The usufruct and produce identified in step five are all associated with costs for inputs of materials and man-hours. This step requires the entrepreneur to analyse the production costs associated with each unit. At this stage, a picture should start to emerge of the general offering to investors/customers

- Minimum number of units to invest in:
- Yearly service per unit:
- Usufruct and fee:
- Produce/service and fee:
- Maximum purchase per unit:

Step seven: final analysis before formal offering

The offering needs to be checked from all angles and adapted. Some questions to ask:

- Can I make it more appealing to investors?
- Have I taken into account risks and insurances?
- Are my profit margins wide enough to ensure the stability of the firm long-term?
- Is there anything that costs me very little to offer but has high value to investors?
- Is there anything that I am offering that has high cost to me but low value to investors?

When all angles are covered, the offering can be formalized in an investment prospectus and marketed.

Examples

MUTTON AND LAMB

A cooperative keeps sheep in a ski resort to graze on the slopes during summer to keep them grassy. ^{vii} They would like to set up a local slaughterhouse to stimulate more local employment and increase the size of their herd. The cooperative issues Unit of Trust agreements for \$1000. Whilst investors have the Units placed with the organisation, they get one delivery of sheep meat per year, are invited to regular events with the organisation and get some share of any excess production.

The UOTMC

In the UOT scheme, companies can invest in other companies. In this example, participating companies invest in the local UOTMC itself. The UOTMC provides promotion of the company at cost.

The Units of Trust Marketing Company (UOTMC) organizes and promotes a UOT investment scheme throughout the region. It is the first organisation to set up a UOT contract and register it with the Bank. Organisations that sign up to invest one unit in the UOTMC will be offered its services at cost price. Local businesses interested in participating in the scheme are invited to invest in the UOTMC through purchase of this type of contract.

The UOTMC sets up regular investment exhibitions where private persons and companies are invited to learn about the scheme, sign up, and meet participating companies with a view to making Unit of Trust investments.

Hopefully, companies that have invested in the UOTMC and are exhibiting at the exhibition meet people who would be willing to invest in the scheme. Shortly afterwards, these companies have new capital and new customers.

For more examples, please see the Appendix.

How the investor gets return on investment

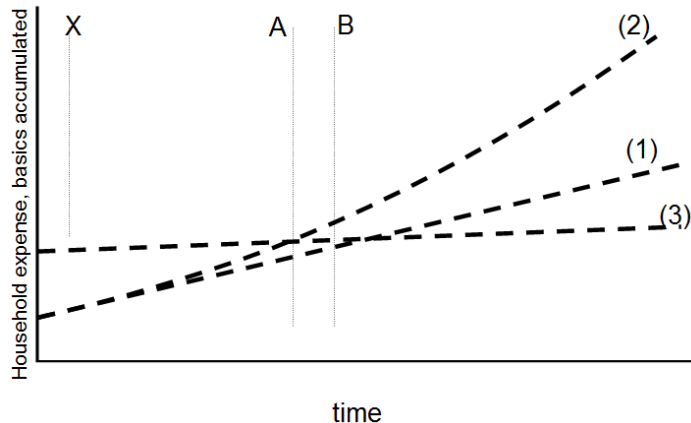
As the terms of the investment provide the investor with basic services, the value of the investment accumulates over time. Pay back time can be calculated by comparing with if the investment was put in a bank. Here you usually get a low rate of investment. The benefit of UOT investment is the difference in the cost of the services after one investment period. I may, for example get sheep meat delivered during a year. If I had my money in the bank I would get a certain percentage interest. If that interest is high enough, I could purchase on the open market an equivalent amount or more, of meat. If the interest is poor, or inflation high, the equivalent in sheep meat will cost more. In the latter case it would be beneficial to have the UOT.

A comparison could also be made with purchasing shares or a share fund. Here, the value of the investment AND the value of what can be bought with the proceeds from sales varies over time. UOT are long term sustainable investments securing basic living needs. Shares and funds present riskier investments whose ability to secure sustainable basic services relies on return on investment and the market price of such services. Shares and funds are neither local investments, and a visit to the company to see the operation with your own eyes is not normally part of the package.

So UOT investments are for those who

- Believe living costs will rise faster than incomes as the present retail model persists.
- Want to create a stable, sustainable base to their investment portfolios as an alternative.

- Want to invest in, and encourage, sustainable solutions
- Want to be customers and users of local services.



To understand the benefits and returns on investing in Units of Trust we need to consider three different scenarios of accumulated costs (adjusted for inflation) over a certain time period.

SCENARIO ONE (1)

This shows costs for living standard basics remaining constant *visa vi* inflation, so the price of heating, butter, bread is the same after, say, twenty years.

SCENARIO TWO (2)

Prices of basics rise and accumulates over time. The mathematics of exponential rises means a doubling in a number of years. A popular approximated method for calculating the doubling time from the growth rate is the [rule of 70](#), i.e $T = 70/r$

If the increase is 3.5% per year the doubling time is 20 years.^{viii} Currently, energy prices are rising faster than inflation, and could cause a rise in the cost of basics according to this model.

SCENARIO THREE (3)

An initial investment in installations of the type, build once, use a hundred years cost in the beginning, but as they pay off, the accumulated benefit reduces accumulated costs over time.

Costs are higher at the start (X) for the sustainable investment (3). However, as costs rise exponentially in the scenario (2) the accumulated costs of this scenario surpass those of the sustainable investment (A). The later point, (B) is where the accumulated costs for the sustainable option are less than those for a stable retail prices.

In the case of a UOT investment, having capital in a firm may not give an equivalent of what an investment account interest payment could buy the first year. However as scenario one and two play out, a comparative break-even is soon reached.

Many point to a fourth scenario, (which seems unlikely given the peak of oil production,) where costs for basics actually fall. If this is the case, then the investment can be seen as giving slightly less dividend than alternatives. On the other hand, it will have ensured quality goods and services and stimulated local production, as well as giving a social engagement in local operations.

Benefits to local companies of a UOT scheme

BETTER ACCESS TO CAPITAL

The UOTMC lines up investors willing to put money into your company in return for something that is easier for you to give them than interest: your products and services.

INCREASE CUSTOMER BASE

UOT investors are also willing customers. By entering into investment agreements with them you are expanding your customer base, reducing marketing costs.

GET STABLE PLANNING HORIZON

Sustainable investment means long term thinking. Your investors aim to get long term return on investment, and most contracts are on a yearly or half yearly basis. As the number of investors increases, so does your ability to plan long term, reducing business risks.

CIRCUMVENT CAPITAL COSTS

Costs of getting capital are often high. To be able to pay interest you need to make, say 4% extra profit. By joining the UOT scheme, your capital costs are lower, you need not make such a high profit to be able to compensate your investors.

Benefits to consumers

INVESTMENT RATHER THAN CONSUMPTION

When you pay for goods in conventionally funded supply chains, the money goes back to pay fossil fuel costs, wages in low cost countries and bank interests charges etc. Your money in this way does not represent an investment but a cost. By investing via Units of Trust, and enjoying the reduced costs of goods it brings, you are investing in your own future and that of coming generations. Your Unit of Trust will be worth more as the business becomes more successful.

POSSIBILITY OF INVOLVEMENT

As the business is local and you are an investor, you have the possibility to get more involved in it.

SECURITY OF SUPPLY OF THE BASICS

Because your investment is based on real value, installations, land etc, and gives dividends in terms of service it is more secure than investments that rely on an investment system that is based on financial, speculative value or operations that rely heavily on fossil fuel inputs.

LONG -TERM INVESTMENT

Over a life-time, individuals can save as they work to invest in organisations that provide them the basics of life. For example, a young man starting out can invest in food and housing, later on in electricity provision and maybe later in an organisation that provides holiday housing, etc. Over a life-time, this investment will mean lower living costs and be something that can be passed on to future generations.

This is in contrast to the situation experienced by many: that erosion of earning potential and job insecurity means struggling to pay bills throughout the working life.

COMPARISON BETWEEN UNITS

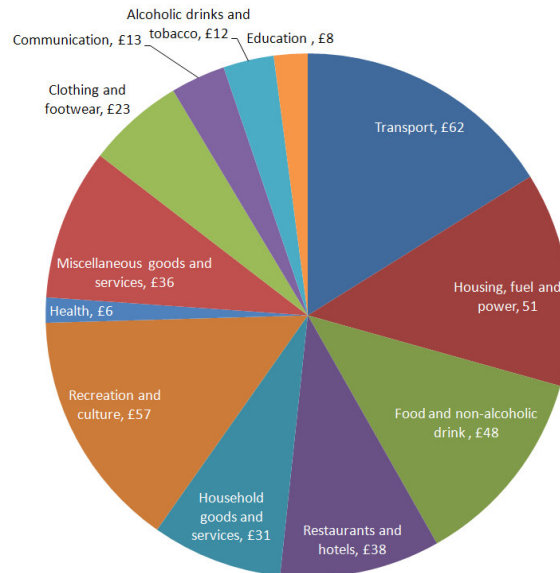
Consumers will be offered a wide range of investment opportunities each based on one or more units. This makes comparison easier.

Benefits to the local economy

One way of thinking about resilience in the local economy is to consider the Permaculture approach where the idea is to slow down the flow of energy and nutrients through the system you are managing. A resilient local economy is one that slows down the flow of money away from the area – to keep it in circulation as long as possible.

One aim of a UOT scheme is to support the development of a local economy resilient, among other things, to hikes in energy costs. To understand how UOT schemes could do this, it helps to have an overview of household expenditure. As shown in the graph below (from UK national Statistics online, data for 2008) household economies are perilously dependent on fossil fuels. For non-tax expenditure, 42% is on transport, housing, fuel and power and food. All three are highly energy intensive. If the price of energy goes up, so

will the proportion of the household budget taken by these essentials. Less money will be available for other purchases sending the overall consumer economy down.



The localised economy (stimulated by local investment in essentials) will be more resilient in this case. Firstly, because less transport is involved, and secondly because there are more organizations providing these essential services. To take a negative example; if local firms are focused on manufacturing consumer goods, and food is being brought into the area, any downturn in consumer spending from increased fuel costs will put these jobs at risk and raise food prices.

As fuel costs rise, so does the amount of money “leaking” out of the local economy into the fuel supply chains. This leakage may even mean that bank loans are hard to get and moving house will be more difficult. It makes sense to improve the house you have, retrofit it with renewable technology and insulation as well as shorten local supply chains. This work creates business for local entrepreneurs. So again, by stimulating the development of these local enterprises the local economy becomes more resilient.

Units of trust are created at the end of the supply chain, that is to say consumers invest in the organization providing them with their basics. This does not mean that money will be unavailable further up the chain. The companies that supply these essentials, like food provision and housing in turn will themselves need to invest. For example, an organic farmer may want to invest in wind power to serve increases in customers. In this case, the farmer can use some of the investment from her own UOT offering to invest in wind power. The wind power entrepreneur can offer investments to local farmers who want to use renewables. In this way, investment is stimulated all around the local community.

The Risks of Units of Trust

When you assign your money to a Unit of Trust in a company, you are in effect putting risk capital towards a business. And you are taking a risk. This section outlines these risks.

Poor quality of service. The company might deliver badly on the conditions of the investment. For example, poor quality. In this case, you as an investor can give the company feedback and request quality improvement. You can also turn to the UOTMC. Poor feedback from investors will lower the organisation’s rating and make them less interesting for others to invest in.

In the end you can remove your investment after the 6 months. The ultimate risk is poor quality for 6 months

The company can go bankrupt. In this case you are one of the creditors and risk losing your original investment. We recommend investing broadly to spread the risk, so the overall effect on your portfolio will be minimized if the rest of your investments are giving good results.

UOTMC can have an emergency fund to help companies in distress. Investing in companies in the UOTMC therefore carries with it lower risks than inventing in these companies directly.

Fossil fuel intensive solutions become cheaper

In this case, the risk is that your living standard could have been achieved at a lower price than that you invested in the local, sustainable solution.

Frequently asked questions

Q *Do I have to pay tax on the value of the services I use under the terms of the investment agreement?*

A Tax rules vary between countries and we can only give a general answer here. If part of the agreement entails money transfer back to you, then you have to pay tax on this dividend as capital gains tax. However, most countries do not tax customer loyalty programmes, where for example frequent purchasers receive discount vouchers.

The services you receive from the company you invest in are seen as payment for the right to use your money and are not normally subject to capital gains tax. However, do check with your tax authorities. The UOTMC in your region will be able to inform you.

Q *Why should I not just invest directly in a local company?*

A There are several advantages to investing via the UOT schemes

- Your money is handled via the bank fund and as such has a higher degree of security in the handling of the money.
- The companies to invest in are selected and vetted by the UOTMC and participating bank to increase the level of security.
- The wide range of companies offered through the UOTMC means you can save time compared to seeking out local companies yourself.

Q *How do I get my money back? Can I make money on the UOT*

A The return on the investment is security of supply of basic goods from local sources in a sustainable way. However, You can sell your UOT back to the bank or another investor. If they are prepared to buy it for more than you did, you make money.

Q *These Units of Trust – is there any legislation that covers them, have they been used before?*

A The instrument is similar to Participating Debentures. One early use was in the financing of Ivar Kreuger's operations in STAB. In this case, the instrument offered a standard interest of 5% and dividend from profits. This instrument is now legal in Sweden, for example, but not in widespread use. An academic paper has recently analyzed this instrument in its Swedish form, Kapitalandelslån.^{ix}

One scheme that has some similarity to UOT is being run by the Swedish Ekobanken. Investors put money in units of 2000SEK into a special account. The company that the account is designated for has the right to withdraw funds for certain kinds of purchases only. Investors receive benefits in terms of the services and products of the company, rather than financial rewards.

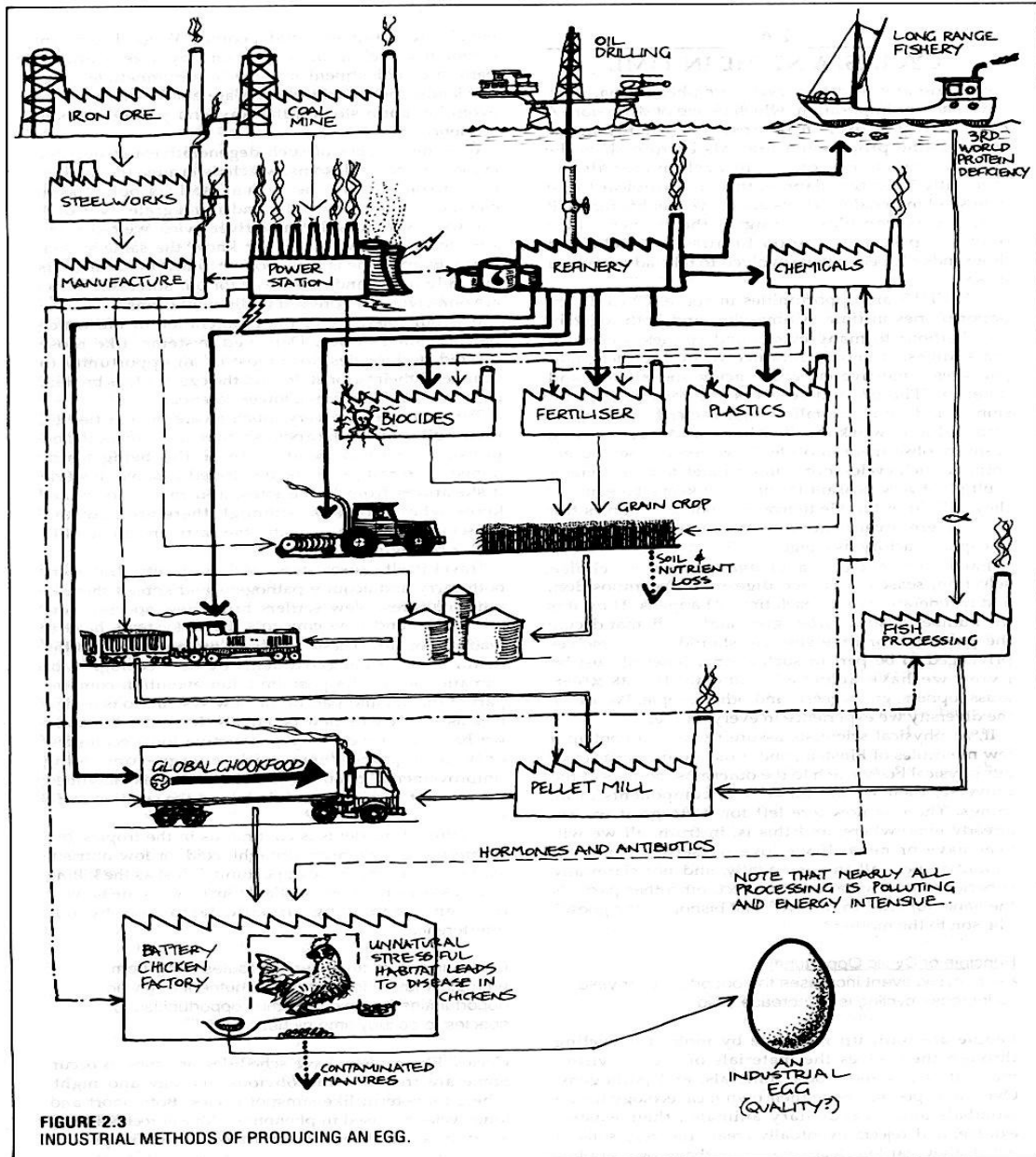
Setting up a UOT scheme in my local area

AVBP and partners would be happy to assist in helping you get started to introduce a Unit of Trust scheme in your area. Please contact us, our details are below.

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Arrowsmith Consulting
Nickelgränd 12
162 56 Vällingby
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Appendix

An example of a complicated, fossil fuel and mineral input dependent supply chain.



Camino Magazine: an example



CAMINO is a life-style magazine that inspires sustainable consumerism. The publishers would like to be a new voice in the world of media and they were awarded "Trend Prize of the Year" in 2007. www.caminomagasinet.se

Ekobanken in Sweden offers investors a new type of service. Put your money in the Camino fund, and as long as your money is there you get a subscription to the magazine at no extra cost. The Bank offers people a way to invest in a media organization they believe in, and receive a welcome service at the same time.

Money in the fund may only be used for certain expenses, and is paid out by the bank against proof of purchase.

Wellness Services: an example

Minimum number of units:	One
Service offered:	<ul style="list-style-type: none"> • Wellness services to small companies • Regular fitness tests and examinations • Massage • Workplace ergonomic inspection • Wellness advice • Special campaigns: weight loss, increased fitness, life-work balance
Infrastructure to invest in:	<ul style="list-style-type: none"> • Fitness test equipment • Massage/treatment benches • Website and booking system with customer records • Premises, special treatment equipment • Equipment for leasing for home exercise
Usufruct and services:	<ul style="list-style-type: none"> • Free consultations during the year (maximum, say 4) • Free personal website with fitness profile, training scheme, etc • Fitness test at cost • 12 massages/treatments at cost • Reduced prices for all services
The compelling offer:	<p>For the entrepreneur: he/she will be able to build up a steady clientele, and be able to offer a long-term service ensuring clients maintain or improve health.</p> <p>For the investor/customer: by investing in the practice, the client gets</p>

	access to a high level of service at reduced cost. The investment pays for itself quickly, both in terms of reducing the cost of regular treatment and in terms of reducing costs due to ill-health.
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References and end notes

Global Public Media www.globalpublicmedia.com an excellent source of interviews and news on sustainability issues and re-localization of community activities.

asset-based finance

Definition

A [secured business loan](#) in which the borrower [pledges](#) as [collateral](#) any [assets](#) used in the [conduct](#) of his/her business. **also called** [commercial finance](#) or [asset-based lending](#).

ⁱ AVBP is a network of concerned sustainable development specialists. See <http://avbp.net>

ⁱⁱ This is according to **The International Energy Agency**. <http://www.iea.org/>
The International Energy Agency (IEA) is an intergovernmental organisation which acts as energy policy advisor to [28 member countries](#) in their effort to ensure reliable, affordable and clean energy for their citizens

ⁱⁱⁱ See **Post Carbon Institute** www.postcarbon.org
Post Carbon Institute is an educational institution and think tank that explores in theory and practice what cultures, civilisation, governance & economies might look like without the use of (non-renewable) hydrocarbons as energy and chemical feedstocks.

^{iv} **Millennium Assessment** <http://www.maweb.org/en/index.aspx>
The Millennium Assessment brings together hundreds of researchers from all over the planet to identify the current status of the ecosystem and its effects on society, including a latest report on business impact.

^v **Grameen Shakti**.
www.gshakti.org/

^{vi} See the discussion about substituting fuel for labour in the paper by Mario Giampietro and David Pimentel (1994) at <http://www.dieoff.org/page69.htm>

^{vii} See for example <http://fjallbete.nu/> This page is in Swedish but it has some explanation in English.

^{viii} For more on the impact of exponential growth on sustainable development see **Professor Albert Bartlett** <http://www.answers.com/topic/albert-bartlett>

^{ix} (In Swedish) Kapitalandelslån-en studie av ett nytt kapitalanskaffningsinstrument <http://www.uppsatser.se/upsats/a995e7ab8b/>
När den nya Aktiebolagslagen trädde i kraft den 1 januari 2006 blev det åter tillåtet för svenska företag att uppta så kallade kapitalandelslån. Återbetalning och ränta på dessa lån är beroende av olika bolagsinterna faktorer, som till exempel bolagets finansiella ställning.