

The Collaboration Forum on Persons with Disabilities
in Asia & the Pacific 2019
Session 5

How to Create Flows of Investment
Capital Funding towards Solving Social
Problems

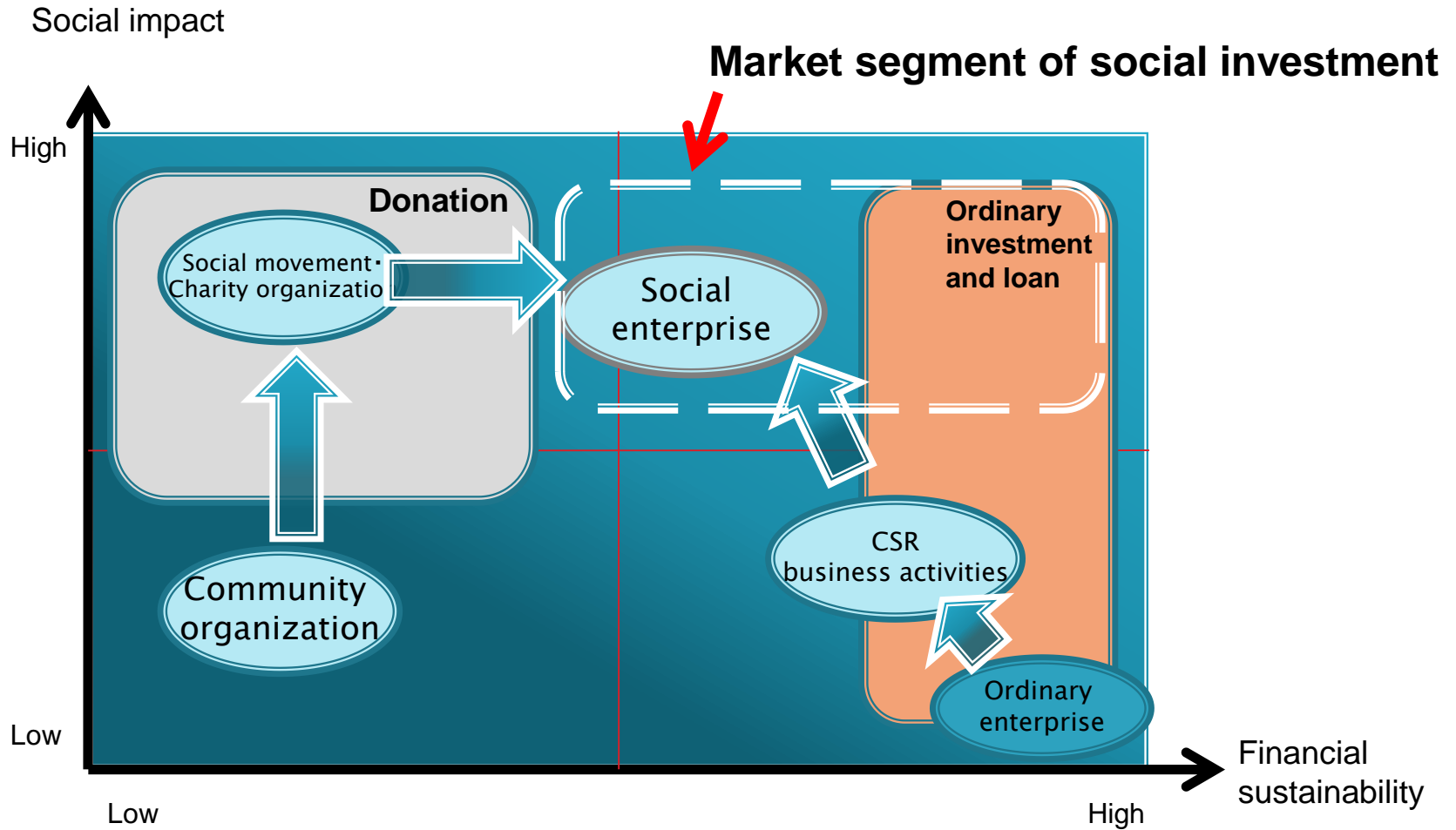
Ken Ito
Project Assistant Professor, Graduate School of Media and
Governance, Keio University /
Regional Head (East Asia), Asian Venture Philanthropy Network
ken85306@gmail.com / itok@sfc.keio.ac.jp

Self Introduction – Ken Ito



- Joined GE International after completing MBA in Thunderbird Global School of Management in USA. Conducted business improvement activities by using Six Sigma method and post-acquisition integration of businesses in the corporate finance sector. Joined Social Venture Partners Tokyo as a partner since 2005 alongside regular work and provided training support for social ventures.
- Retired from GE in 2008 and worked for NPO ISL until 2010, being involved in the startup and operation of the Center for Social Innovation. Main work included the operation of the Social Entrepreneur of the Year (SEOY) Japan program in cooperation with Schwab Foundation in Switzerland.
- Project Research Associate, Graduate School of Media and Governance, Keio University since 2010. Project Assistant Professor since 2016. Main research area is Social Impact Assessment. Teaches “Social Finance,” and “Product Development and Marketing of Social Business.”
- Japan Advisor, Asian Venture Philanthropy Network / Executive Director, Social Value Japan (NPO)

1-1. Positioning of Social Investment



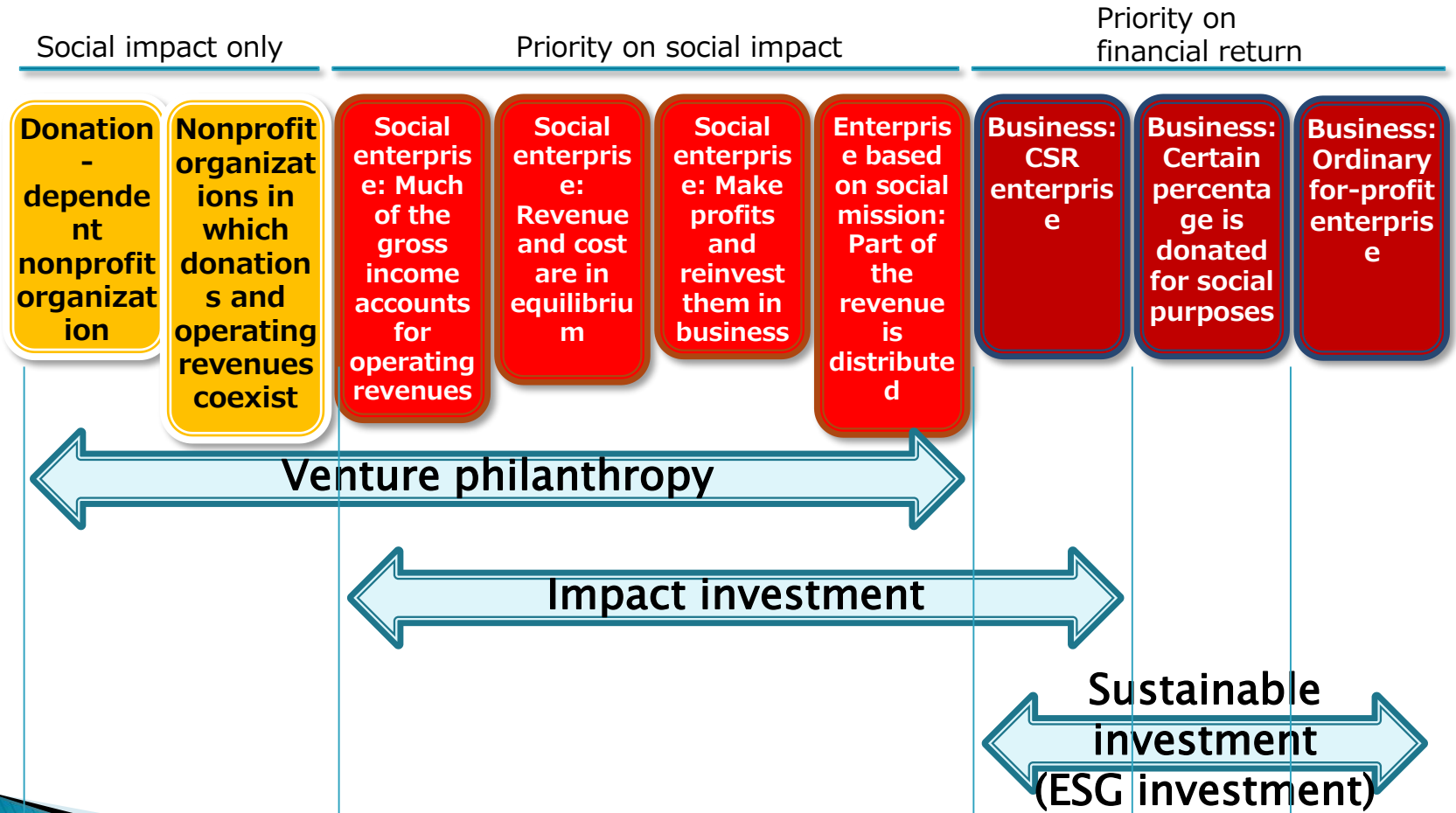
Social impacts and financial sustainability are compatible

1-2. Segments of Social Business and Social Investment

Creation of social value

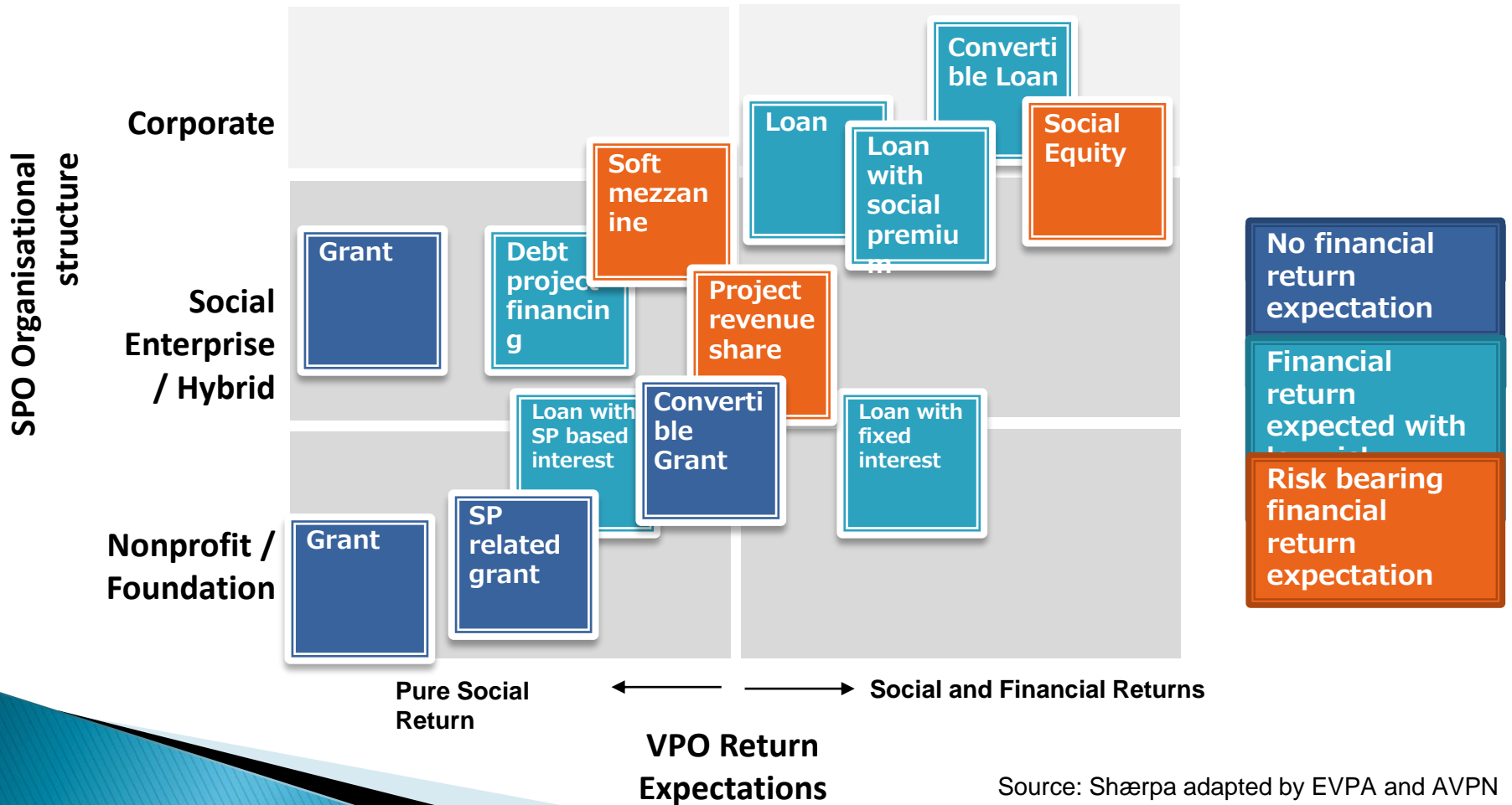
Creation of financial value

These enterprises and organization produce a mixture of social and financial value.



1-3. Different Instruments of Funding

Depending on the form of the investee corporation, or the degree expected of the financial return, different instruments apply.

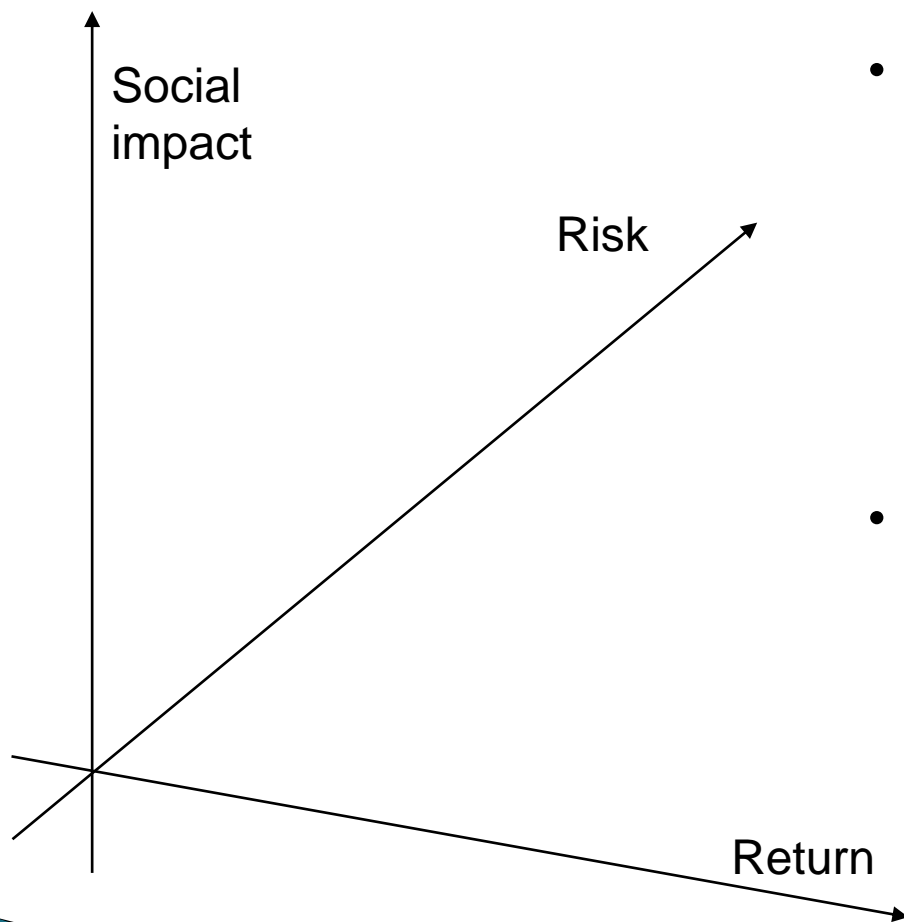


Source: Shærpa adapted by EVPA and AVPN

1-4. Typical Models of Social Investment

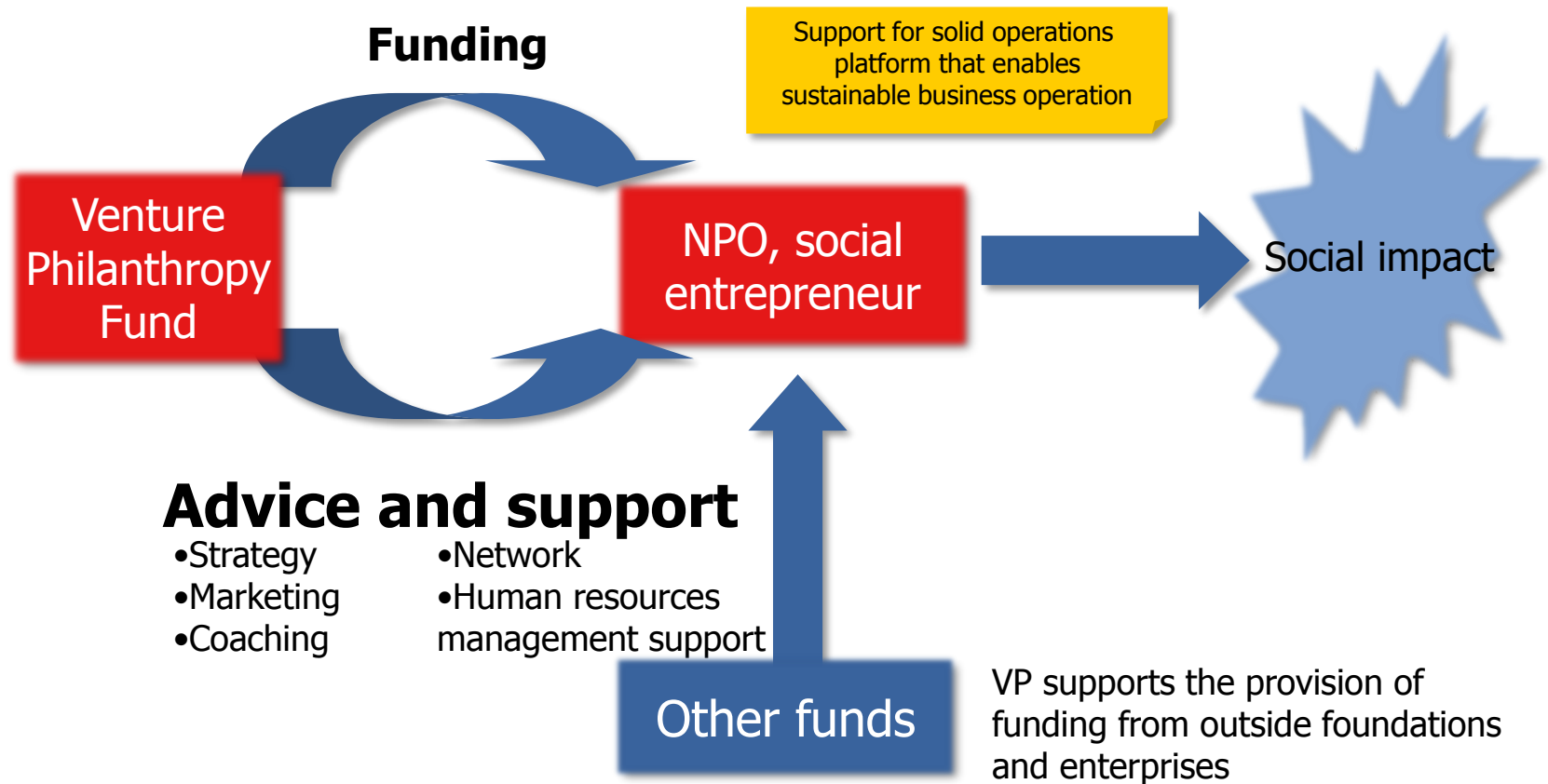
	Target	Method	Characteristics and typical examples	Market size
Venture Philanthropy	NPO and social enterprise	Grant (donation)	Support in both funding and management. –Social Venture Partners, Robin Hood Foundation	Accumulation of 6.5 billion euros in Europe (as of 2016)
Impact Investment	Social enterprise (unlisted, mainly)	Investment and loan	USA has the PRI legislation. Otherwise, focus is strong on small and medium-sized enterprises of developing countries. –Acumen Fund, Endeavor, etc.	Globally, 300 billion dollars forecasted for 2020 (GSG) In Japan, 76 billion yen (2017, estimated by Nippon Foundation)
Sustainable Investment (ESG Investment)	Shares and bonds of highly social listed enterprises	Investment	Mostly large-scale enterprises as targets are listed enterprises. –Sumishin SRI Open, Daiwa Microfinance, etc.	Globally, 2,500 trillion yen In Japan, 232 trillion yen (asset balance, as of March 2018)

1–5. Social Impact as the “Third Axis” after Risk and Return



- The position of an investment portfolio has thus far been represented by two axes of risk and return.
- With social investment, the axis of “social impact” is added to the two axes.

2-1. Venture Philanthropy Model



Venture philanthropy increases effectiveness of its funding by long-term advice and strategic support

2-2. Characteristics of Venture Philanthropy

Due to questions about the foundations' conventional methods of support for the nonprofit sector in providing grant, venture philanthropy was developed by founders, who come mostly from investment companies including private equity, as a method to support nonprofit organizations by using investment techniques.

Existing grant-giving foundations

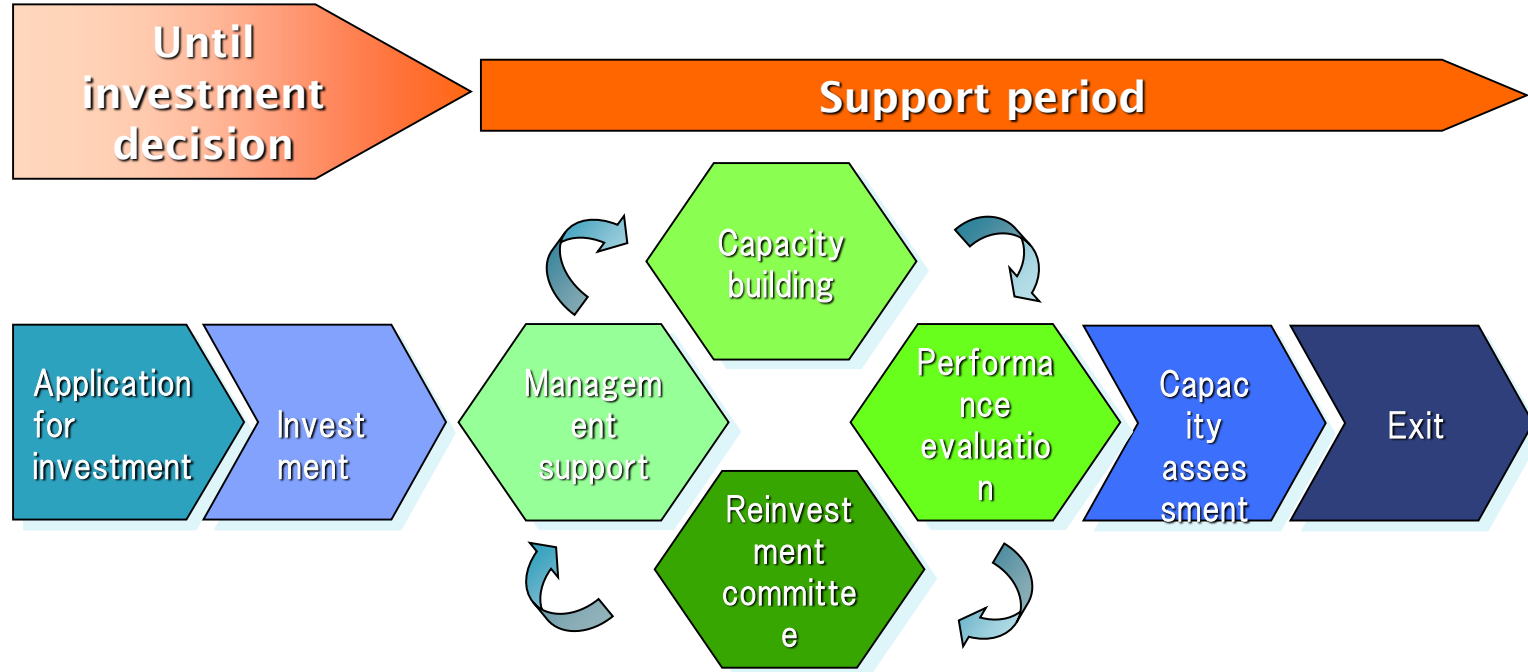
- Provide funding, but not support for operational know-how
- Normally single-year grant
- Provide grant for projects, but not support for management infrastructure (people and organization) itself
- Low commitment to activities
- Not output-based, do not have "Exit" strategy
- Do not share risks

VP model

- Provide not only funding, but also support in terms of operational know-how for the organization's management
- Medium to long-term support, commitment to outcomes, "Exit" strategy
- Intensively invest in management resources and organizational infrastructure for social organizations with high potential
- Measure performance toward goal achievement
- High commitment to activities
- Share risks

Capacity building of social ventures through multi-year commitment

2-3. VP Support: Support Cycle



Examples of “service menu” of VP organizations

1. Strategy
2. Financial plan, accounting
3. Fundraising
4. Organizational development
5. Organization and governance
6. Information technology
7. Performance evaluation
8. Business expansion
9. Publicity, public relations
10. Introduction to outside network

Provide management support for organization reinforcement

2-4. Pioneering Organizations in Europe and the United States

■ United States

In the late 1990s, VP funds were established mainly on the west coast. Currently, several dozen funds are active across the country.

New Profit

Summary

- Founded in 1999 in Boston, currently has 50 employees and an annual budget of \$20M. The Monitor Group provides support in the form of both funding and human resources.
- Has provided financial and managerial support to a total of 40 NPOs. Target organizations show an annual average growth rate of 40%, and the cumulative number of beneficiaries exceeds two million people.

Principal Investees

- Focuses on the area of education to investigate and select its target organization to invest in. Has supported "Teach for All" since its start recognizing its foresight in that it today keeps top of the best jobs ranking list in the field of humanities.



NEW PROFIT inc.

Social Venture Partners

Summary

- Established in Seattle in 1997, 25 partner locations in the US, 2,500 members.
- Has provided financial and professional managerial support to a total of 300 NPOs. SVP Tokyo is active in Japan.

Principal Investees

- Community-based action: all partner locations carry out their own investigation processes to select and support organizations that solve issues within the community.



■ Europe

VP funds were established by PE funds and grant-giving organizations around the 2000s. In 2006 EVPA was established, which currently has 136 members and has donated a cumulative total of more than €1 billion.

Impetus Trust

Summary

- Established in London in 2002, approximately 20 employees. Cumulative investment of \$6M until present.
- Has provided financial and long-term managerial support to a total of 13 NPOs. CVC and Apax are among its support providers.

Principal Investees

- Initially supported NPOs over a wide range of sectors, currently focused on solving poverty issues and social rehabilitation of former convicts.



CAN Breakthrough

Summary

- Founded as an investment sector of CAN, an NPO intermediary support organization. Permira, a PE fund, provides support in the form of both funding and human resources.
- Has provided financial and managerial support of \$4.5M to a total of 7 NPOs. Target organizations show an annual average growth rate of 20%.

Principal Investees

- Provides support to organizations based in CAN-operated incubation facilities for NPOs and social enterprises.



2-5. Expansion of Venture Philanthropy in Asia

The venture philanthropy movement which spread in Europe and US in the '90s reached Asia in the late 2000s. They vary in size and reach but below are a list of major funds in East Asia that adopt the methods of venture philanthropy.



Social Venture Partners Tokyo (Tokyo, Japan)

D3 Dubilee (Seoul, Korea)

Sopoong Ventures (Seoul, Korea)

Seed:s (Seoul, Korea)

Flow Inc. (Taipei, Taiwan)

Fuping Development Institute (Beijing, China)

Non-Profit Partners (Beijing, China)

ECSEL (Shanghai, China)

Non-Profit Incubator (Shanghai, China)

Social Ventures Hong Kong (Hong Kong, China)

Sow Asia Foundation (Hong Kong, China)

Center for Social Initiatives Promotion (Hanoi, Vietnam)

Change Fusion (Bangkok, Thailand)

Grassroots Business Development Fund(US/Thailand)

Social Innovation Park (Singapore)

3-1. Impact Investment Case Examples

Bridges Ventures (UK)



- Founded in 2002 as a semi-governmental fund with the fund of £40MM to promote community investment in UK.
- With Bridges Charitable Trust being the parent organization, private equity investment companies, such as Apax and 3i, participate in the operation.
- Investment is limited to poor communities below 10% of the lower class in UK - invests in low-cost sports clubs for low-income population, waste oil recycling business, hotel business, and business education.
- Participates in outcome-based private investment schemes of the government.
- Executes its first Exit in 2005, launches the second privately-funded fund in 2007 with £75MM, and the third fund in 2011 with £72MM.

3-2. Impact Investment Case Examples Acumen Fund (USA)



- Venture capital fund established in 2001 to solve poverty issues in developing countries. Head office in New York and regional offices in India, Kenya and Pakistan.
- Invested approximately \$60 million to date in 57 social ventures in developing countries, with about 40 million project beneficiaries in total.
- Major support areas: public health and water supply

4-1. Assessment System for ESG Investment

- Positive screening and negative screening

Negative screening

Exclude specific business or industry sector

Tobacco

Alcohol

Gamble

Consideration to environment and employees

Human rights issues in developing countries

Governance

Compliance

Supply chain

Positive screening

Select “Best in Class”

Management system

Environment management system

Environmental burden, environmental efficiency

Information disclosure

Communication

- Many ESG funds employ a combination of both negative and positive screening.

4-2. Case Example: Vaccine Bonds and Microfinance Bonds

投資で始める、あなたの支援。

あなたの投資が、幼い生命に未来を与える。それが「ワクチン債」です。

ワクチン債 **完売**

南アフリカランド建 / 固定利付債券 / 残存期間4年4ヶ月

利率/年(課税前): **6.10%**
(注) 利率は南アフリカランドベースです。(為替は毎年10%上昇)

売出価格: **98.90%**
(注) 80日中の経過利率が適用されます。

売出期間: **2012年5月1日~5月28日**

ワクチン債とは... 70カ国以上の発展途上国の子どもたちに
 ワクチン接種の機会を提供するために発行される債券です。

売出概要

発行体: 予防接種のための国際金融ファンダリティ(IFFIm)	売出期間: 2012年5月1日~5月28日
格付け: Aaa(Moody's) / AA+(S&P) / AAA(Fitch)	受渡日: 2012年5月29日
利率: 年6.10%(課税前)	償還日: 2016年9月29日
お申込単位: 50,000ランド以上10,000ランド単位	利払日: 毎年3月および9月の29日

※上記価格は数量価格です。数量価格に関する留意点につきましては、「数量価格に関する説明書」をご覧ください。

CGAW/Other Asset

お申込みの際は「契約締結前交付書」をご覧ください。また、本資料に記載の「売買等に関する注意事項」を必ずご覧ください。

香川証券

香川証券株式会社
 香川県高松市東通町1-1-1
 加入協会: 日本証券業協会

東京営業部 Tel 03-606-3939	大阪支店 Tel 06-77-45-2970	香川支店 Tel 0877-22-6136	豊中支店 Tel 06-75-25-2151
名古屋支店 Tel 03-79-25-2431	福岡支店 Tel 092-743-3336	愛媛支店 Tel 089-434-1900	高松支店 Tel 087-63-1121
神奈川支店 Tel 0863-72-1195	高松支店 Tel 089-623-0161	伊予三島支店 Tel 0896-26-1555	四国支店 Tel 0897-56-1510
岡山支店 Tel 03-5550-0125	香川支店 Tel 087-606-1717		

- Vaccine Bonds are the bonds issued since June 24, 2009 by 4 organizations, HSBC Securities Company, International Finance Facility for Immunisation (IFFIm), GAVI Alliance, and the World Bank, to provide vaccine to children in developing countries. Solicitation of sale started on June 1st of the same year.
- Funds raised through vaccine bonds become financial resources for immunization and health services for children in over 70 countries in the world.
- Kinds of bonds: 4-year maturity bonds denominated in Australian dollars and South African rand.
- 19 sales companies. Ratings include AAA by S&P and Aaa by Moody's. Aims at raising USD4 billion to provide vaccine immunization to 500 million children.

5-1. Discussion at G8: Challenges toward Expanding Social Investment Market

G8 policy recommendations	Challenges for Japan in response and envisaged actions (2016)
1. Outcome-oriented policies and business assessment	<ul style="list-style-type: none">• Outcome-oriented policies and project evaluation have not disseminated among relevant persons in the government, enterprise CSR, NPOs, and grant-giving foundations.• Evaluation technique for social outcome has not been established. → Promote dissemination and awareness of outcome-oriented approach and evaluation methods.
2. Penetration of impact investment.	<ul style="list-style-type: none">• Socially responsible investment market is immature. → Expand the socially responsible investment and impact investment by institutional investors.
3. Clarification of fiduciary responsibility.	<ul style="list-style-type: none">• The relation between the fiduciary responsibility under laws (Employees' Pension Fund, Financial Instruments and Exchange Act, etc.) and socially responsible investment, PRI, and impact investment is not clear. → Legally and interpretationally clarify that fiduciary responsibility is not inconsistent with investment activities that take social returns into consideration.
4. Performance-based public procurement.	<ul style="list-style-type: none">• Performance-based public procurement is hardly exercised.• There is a lack of support for social impact bonds at the government level. → Local governments create a model; at the same time, urge Ministry of Finance, Ministry of Health, Labour and Welfare, and Ministry of Internal Affairs and Communications to introduce performance-linked businesses such as social impact bonds at the government level.

5-2. Discussion at G8: Challenges toward Expanding Social Investment Market

G8 policy recommendations	Challenges for Japan in response and envisaged actions (2016)
5. Utilization of dormant deposits.	<ul style="list-style-type: none">• A bill regarding the utilization of dormant deposits for solving social problems is expected to be submitted to an extraordinary Diet session this fiscal year. National Assembly for Dormant Deposits has been making a recommendation to the Diet members' caucus that a part of dormant deposits be used for impact investment. <p>→ Pursue the realization of impact investment with dormant deposits.</p>
6. Building of management capacity of investees.	<ul style="list-style-type: none">• More grant money is provided for operating cost while less funding is provided for building operational capabilities of NPOs and social enterprises. <p>→ Promote providing grant money for building management capacity.</p>
7. Establish legal personality for social enterprises.	<ul style="list-style-type: none">• There is no legal personality for social businesses. <p>→ Consider needs and institutional bottlenecks with regard to the establishment of investment-based NPOs and social business corporations.</p>
8. International development and impact investment.	<ul style="list-style-type: none">• JICA's FS research project on BOP business, etc. is taking a lead. The possibility of establishing impact investment funds is under consideration. <p>→ Consider Japan's participation in the Global Fund and Development Impact Bonds (DIB).</p>

Summary

- Now that the redistribution of social resources by way of conventional economic growth and functions of state has begun to show limitations, there are rising expectations toward solving social problems by using private funds.
 - In international policy discussions as well, attention is drawn to the positioning of social finance by such private funds.
 - In the area of investing in the investment-oriented society, there also exist different segments such as venture philanthropy, impact investing, and ESG investment, which, while relating to each other, are causing the market to grow.
 - For such social investment market to expand, there are such challenges as a social system related to finance, the maturing of the social enterprise sector, and the fostering of a culture related to social impact.
- 