Session 5　“How to Create a Flow of Investment Funding towards Solving Social Issues”

**Ito/** My name is Ito, and I am from Keio University. Today our theme is “How to Create a Flow of Investment Funding towards Solving Social Issues.” We have a key word today that is “disability.” Usually we talk about grants, subsidies, or donations, but here we would like to discuss “Whether or not it is possible to sustain projects by investment funding.” This is my research field at the university, and I am also a representative of Japan in an organization that consists of associations for social investment and various foundations in Asia. I expect to hear from the speakers about hands-on experiences. For today’s discussion, we already have received requests from former Duskin trainees in the audience. They want to know “How persons with disabilities can solve social issues by utilizing economic opportunities” and “How to get funding for that.” Keeping these two points in my mind, we will have our discussion. But first, I will talk about the current situation of investment funding towards solving social issues. Then I will ask three panelists who provide funding in different fields to make their presentations, and finally we will go into the discussion.

First, we will talk about social investment. There are donation types of money and commercial types of investment. Social investment is like a hybrid. It is not just about using subsidies to run projects, but there are some projects that are able to make profits. In other words, social business is not about just doing business, but it is also about bringing social benefits, and it is growing. At the same time, on the other hand, some companies and investors have started to invest, not only for the sake of financial profits, but also for supporting social businesses through their investment activities. Where these two sides meet is where social investment happens. (Slide 3)

There are different types of social investment. Some investors want to invest in areas where they can get high social values, but also they are looking for as many financial returns as ordinary commercial investments. But this is asking rather too much. Then, there are foundations that have subsidies available as grants, but in this case, money does not come back. For example, if you can get back half the amount or 80 percent of the money you paid, you may be able to recycle this repaid money to invest in new projects. From this perspective, some people have shifted their ideas from subsidies to investment. In this chart, we have what we call a spectrum of social enterprise. A spectrum is like a rainbow of colours. In a rainbow, the boundary between red and blue is not so clear, but the colours gradually change. In the same way, you cannot clearly distinguish between social businesses versus non-social ones. Any company has some aspects of social benefit. It is a matter of a balance, whether you prioritize financial benefit or social benefit. In this chart, the yellow part on the left side shows a business that is pursuing social impact and not so much focusing on monetary profit. The dark red part on the right side shows a business that looks for more of financial returns. In this way, there are different types of businesses. Ordinary companies also are located somewhere on this spectrum. (Slide 4)

One thing I would like you to understand is about money. Depending on whether companies prioritize social impact or financial impact, how they invest money is different. There are three representative models of social investment: The top one is a venture philanthropy model. They give money as investment but in the form of subsidies and donations. The middle one is impact investment. They expect monetary return for their investment but also social impact to be created. The last one is ESG investment. These usually are investments to listed shares or bonds. Whenever you buy shares on a stock market, you consider which companies are doing the best socially beneficial activities and then decide where to invest. As you have seen, depending on the types of investment targets, the way of providing monetary funding changes. (Slide 5 - 6)

Social impact investment is now subject to discussions all over the world, and people talk about social impact as the third axis. Usually when we make investments, we think of two axes, risk and return. Risk means that even if you invest money, there may be no return. Return means the money you invested grows, and financially there is a return. In addition to these two axes, to take social impact into consideration is the current discussion point. Today we have three speakers who are engaging in different businesses. By listening to their presentation, you will be able to understand that there are different models. I would like to invite the first speaker, Ms. Suzuki, to talk about how she perceives social investment. (Slide 7 - 19)

**Suzuki/** I am Suzuki from Asian Community Trust known as ACT. We perceive Asia countries as one community and we give trust to that. We are the first fundraising type charitable trust in Japan and in November next year we will be commemorating our 40th anniversary. Through a trust fund from individuals and private companies, we provide funding. A recent characteristic is that an increasing number of donors feel that the connection between Japan and Asian countries is very important. Currently, seven countries including Japan are being supported. (Slide 2 - 3)

Regarding structure, our operation body, ACT, accepts project proposals and then provides grants. Our targets are local organizations, educational institutions and sometimes the government. They are the actors and our partners. Our area of focus is a wide range from education, medical and health care, promotion of local culture, academic research, and many other fields. The strength of ACT is that local non-governmental organizations are the actual operators. Since we have forty years of experiences, we have networks with a lot of countries. By donating more than ten million Japanese yen, donors can create a Special Fund which will be established within one to two months. There is no complicated procedure and so this is also our strength. Donors can enjoy tax incentives under the Japanese law. When we hold a reflection meeting inviting our partners from Asian countries, we had various suggestions from local partners that we needed such kinds of support as South-South cooperation, utilization of information technologies, social enterprises, BOP (Base of the Pyramid) business, training of champion leaders. We are also supporting projects that are beneficial to persons with disabilities. As one example, I would like to introduce you a three-year project in Pursat Province of Cambodia. We have created an inclusion classroom in a local school and made it possible for children with disabilities to study together with other children. For that, we made ramps, trained teachers, and introduced the children to a rehabilitation center so that they can regularly receive rehabilitation. It was a holistic approach. The average amount of the grant was about two million Japanese yen per year and we provided the grant to a local non-governmental organization. (Slide 4 – 12)

This is a photo of parents with a child with disabilities (Slide 14). To make sure that the parents can make a livelihood, we finance a small amount of fund of about one hundred to two hundred dollars so that they can continue agriculture, run small shops or raise poultry. It is called microfinance. The system is that we finance such businesses and when profits are generated they pay back the loan. Another case is a ten-year project in Sri Lanka to which one of the special fund of ACT “Daiwa Securities Group Tsunami Reconstruction Fund” provided grants. The women who suffered from the disaster established about seventy female organizations in total. Along the path, we walked together with those women so that they became able to be independent, run organizations and make profits. The number of participants has increased to about one thousand three hundred members. They could reconstruct their income generation systems such as by running shops, collecting and selling cinnamon trees or coconuts. We created not only great financial impacts here but also invisible impacts, such as women’s decision-making power has grown, domestic violence was decreased by ninety percent, and child education was improved. The most important thing was that all the women could go ahead with dignity and pride. (Slide 13 – 22)

Most of grants in Japan usually are only for one year but ACT supports on average for three years. One year is not enough to see outcomes. We submit financial report and activity report to our donors. Characteristic of ACT is that we support organization’s intangible aspects, such as human resource development and the conversion to a corporation. The challenge of using a grant is that usually when the period of a grant is over, that is also the end of the activities. There is a risk of over dependency. It is also a challenge for us to set a good exit strategy. Of course non-governmental organizations cannot do everything. Non-governmental organizations alone may not be capable enough to develop business models and to come up with methodology, means and approaches. With external help from companies and stakeholders, it is necessary to collaborate with many different organizations. (Slide 23 - 24)

**Ito/** The activities of Ms. Suzuki or ACT use the scheme of grants. But they make sure to monitor social impacts, and also in order to achieve such impacts, they hold dialogues with grant recipients and think together about what else is needed, apart from monetary funding. Another thing that I noticed is the keyword, “exit strategy.” The project should not end when the money runs out. It is important to think seriously about how to utilize the grants as a principal, and I think this was the main point of her presentation. The next speaker is Mr. Matsubara from Resona Bank. He is a group leader of the ESG investment group. I would like to hear how you are involved as a bank in social investment and also about the connection between your activities and today’s theme.

**Matsubara/** My name is Matsubara, from Resona Bank. When you hear the name Resona Bank, I guess you think of a commercial bank, but Resona Bank has a wide range of business activities. Today I would like to speak mainly about ESG investment from the position of an investor who deals with corporate pension fund and public pension funds. (Slide 2)

ESG investment is an investment activity that takes into consideration such factors as Environment, Society, and Corporate Governance. E stands for environment and relates to issues such as climate change, deforestation, and marine pollution. S stands for society and relates to forced labor, child labor, poverty, and disparity. G stands for corporate governance and relates to the constitution of board members and executive remuneration. ESG investment takes these factors into account. The concept of ESG investment was brought by Principles for Responsible Investment (PRI), which was launched in 2006. Formulation of this investor’s network, PRI, was attributed to a former United Nations Secretary General, Mr. Annan, who insisted that we need the power of the private sector to resolve social problems and take leadership, and the United Nations supported it. (Slide 3)

How many investors participate in PRI? There were 100 institutional investors at the time of its establishment in 2006. However, the number has risen year by year, and now it is more than 2200. The amount of collected capital from these investors is about 80 trillion dollars or 88 thousand trillion Japanese yen (calculated 1USD=\110). This is great power. Once a year we have a general assembly. (Slide 4 - 7)

I think that in order to address ESG’s issues, it is necessary for corporations not only to pursue their own profits but also to consider what kind of positive impacts they have created in society. It is important proposition to assess corporations based on two axes, which are social profit and economic profit. In the long run, we should intend to fulfill both social and economic profits, what we call “ambiguity”. At the end, I would like to introduce you to the following message from a Native American’s words, which PRI advocates to investors: “We do not inherit the earth from the ancestors, we borrow it from our children. This is the origin of my activities. (Slide 8 - 9)

**Ito/** Mr. Matsubara, from a bank’s point of view, talked about why they are shifting the gears of their investment activities towards those that take into consideration environment, society and governance. He also explained how big these activities have grown. In the very beginning, there was a question about how to obtain investment funding. You saw an answer in his slide, the second one from the last. It is about the selection of which kind of social problems the investors want to pay their money into. One thing is whether or not it has a ripple effect. That is, whether it can put influence on a wider range of areas and how big the social profits can be. Another thing is sustainability. Whether or not they can continuously develop their activities and if any innovation is incorporated into their activities? On top of this, one more thing is whether it can produce economic impacts or not. If all these requirements are fulfilled, investors may show their interest. Am I understanding correctly? Now, we would like to invite the third speaker, Ms. Kono from ARUN. ARUN has been practicing impact investment for 10 years in Asia.

**Kono/** My name is Satoko from ARUN. I would like to talk about ARUN’s activities and give few examples of investment. ARUN means “dawn” in Cambodian language. It represents hope and energy of entrepreneurs. For about 10 years, I was in Cambodia doing international cooperation work. At that time, I met social entrepreneurs, and it inspired me to start ARUN to implement social investment. Compared to conventional investment that looks for financial returns and profitability, social investments pursue both social return and financial return simultaneously. ARUN aims at connecting investors with entrepreneurs who are trying to solve social issues through their businesses, and formulating a community where investors can also learn from entrepreneurs. (Slide 1 – 6)

ARUN envisions a society in which all members live and enjoy the full range of their talents and abilities, regardless of background. Until now, we have been making social investments mainly in Asia, more specifically, in Cambodia and India. Also, in targeting Asian counties, we hold social business competitions. We are investing in many different fields, such as agriculture, health care, water, education, and gender issues. Recently, IT- and IoT-using businesses are increasing in every field. We do not have a specific investment category for persons with disabilities, but there have been companies that are run by persons with disabilities. We make investments based on both social criteria and financial/business criteria. What we think the most important is commitment of entrepreneurs to solve social problems. We value such perspectives, as this is social investment: We need to measure results and impacts that the businesses are producing, to discuss these together with investors and entrepreneurs, and to think how to enhance them even more. (Slide 7-10)

Please let me introduce some examples. First is a business case in India that tried to solve problems in a dairy supply chain from production to distribution. Suppose that in India, a farmer has two or three cows and brings milk to a collection point in a village. Since there was no way to measure the quality of milk, some farmers used to mix water to increase the volume, while others did not get paid appropriately, although they brought high-quality milk. The problem seemed to exist on both sides, those who sell and those who buy. After the IoT machine was set up, it became possible to measure both quality and quantity of milk and to let the exact data be known on the spot. The data were stored into cloud and shared with dairy companies. Thanks to it becoming possible to pay appropriately depending on the quality, farmers no longer try to add water to milk, and they are motivated to bring high-quality milk. In addition, the increase in transparency seems to mobilize good supply-chain management from production to distribution. There are about 10,000 machines already installed, and the number of registered farmers exceeds 1,000,000.

(Slide 11 -13)

The next example is about an entrepreneur in Pakistan. He was an engineer who had an elder brother with disabilities, and he saw that his brother did not have an opportunity to get appropriate education. Therefore, he wished to give educational opportunities to children with disabilities by utilizing AR (augmented reality) technology and to develop a rehabilitation program. Using the program that they developed, the children with disabilities are able to increase their physical functions, as well as their cognitive functions, through playing games. In addition, its feedback function makes it possible to offer an appropriate program depending on the level of each child.

(Slide 14 – 28)

Why these projects are getting such attention? Because we have come to realize that investments that were considered unrelated to solving poverty issues actually can solve social problems while generating profit.

Such collaboration among the people who did not have the chance to meet together before, can create new business opportunities. I think this is an important role of finance to unleash people’s hidden potentials.

(Slide 29 -33)

**Ito/** There are many issues that have not yet been touched upon, but they can be seen as opportunities to create new businesses. For that, we need an evolutionary innovation. Not big corporations, but small companies may have new ideas and technologies. If they actually are able to solve the unsolved social issues, then I am sure there will be investors who are interested. In the case of dairy farming, if it is possible that this system can extend to tens of thousands of farms, then I am sure there will be investors who would provide funding and that will eventually solve the issues. Now I would like to receive questions from the audience.

**Questioner E/** I am a lawyer. As to what Mr. Ito mentioned at the very end, I would like to ask how to measure quality and impact and what are the indicators? Personally, I have very much hope for ESG, but I also have the impression that we still judge the results in numerical terms. For instance, for employment of the people with disabilities, the indicator will be the number of people who are employed. Although it is easy to see the impact, I have a feeling that maybe it does not reflect the differing needs that each one of them has. So when we look at the impact, how can we evaluate its quality and how can it be shared with others? I am sure you all have a lot of oversea experiences, so I would like to hear your ideas and opinions.

**Matsubara/** We have direct conversations with listed corporations regarding ESG investment. First, corporations disclose management policies and their activities to ESG, and then we discuss its content together with them. We make efforts to assess qualitatively the impacts and features of their attempts, considering their sincerity and the content of the dialogue, and confirming the background of the ideas and the systems to utilize them in their organizations.

**Kono/** When we talk about qualitative impact, there are macro-level and micro-level. On a macro-level, it might be possible that the business itself has influence on the government policies and systems. For example, the case of IoT-using dairy supply chain business, to incorporate IT into agriculture was a new scheme, and it was innovative even in India, where IT is advanced. For that we had to move the bureaucratic system which entrepreneurs had a hard time. However, through IoT-using businesses, we are playing a role to open them up.

In micro-level, for example, in the case of the education of children with disabilities, each child has individual challenges. What struck me the most was that the program could incorporate the quality measurement aspect into the service itself, as an essential element. They can turn the reactions of each child into data, and with these data, they are able to provide programs suitable for each child’s conditions. Innovation enables them to increase the data numerically and also to respond qualitatively, and this is the point where I see potentials.

**Ito/** Especially with social businesses, quality and quantity influence each other. For example, in the case of augmented-reality contents, which were introduced earlier, if the contents are very interesting, and if there is an attractive function to connect with other people through games, it may sell more. To have both quality and quantity impacts is characteristic of social businesses.

**Questioner F/** I am deaf and I come from Laos. I have a question to the speaker from ACT. Two years ago, we applied to ACT with an awareness-raising project targeted to the deaf community, in order to prevent HIV. Maybe it did not fit to your aim, as we were not selected. I know that there are seven counties that ACT is supporting, and Laos is one of them. I would like to hear from you what would be the next step that we should take.

**Suzuki /** Honestly speaking, I do not think it is a good idea to talk specifically about an individual project here. Actually, ACT has a support program for activities of former trainees who went back to their own countries and started their activities after finishing their training in Japan. I guess you applied for this, however, we only support two projects per year and it sometimes happens that we cannot call for project proposal every year because we normally continue to support them for multi-years once they are approved. In addition, ACT has Special Fund which specifies its targeted beneficiaries and project contents to provide grants. Currently in Laos we support one project to provide medical care to leprosy patients and their families in each colony in the country. This project is now in its fourth year and we are able to continue our support because there is a special fund targeted to leprosy related issues.

**Questioner G**/ I am a representative of an independent living enter. I have never met any investor. I would like to know how I can meet them and talk to them.

**Ms. Kono**/ This is actually the problem that we face every day. In the beginning, the idea of social investment was not well known. It differs from conventional investment practices, and it is different from the usual aid activities. We have kept saying that this is a new way. These days only talking about investment is not enough. What is to be done with the investment is more important. Many forums are held in Asia or other regions to promote social entrepreneurship where we can get to meet with investors. Also, there are some competitions targeting social entrepreneurship, and that is another opportunity for interested investors to gather. However, social investors are few in Japan and very rare to meet. Still, the investors always are looking for seeds of good businesses and good entrepreneurs. I think it is very important to promote your project, make clear statement about what you do and what your vision is, and create more opportunities to meet people.

**Questioner H**/ In my country, Bhutan, in order to solve social issues, non-governmental organizations are normally dependent on donors, but this is not sustainable. What are the challenges for creating a sustainable system?

**Suzuki**/ This is a very important question. Everybody struggles with this. For those who provide funding, this also is the most important point. There is a limit to what grants can cover. Even though there are shortage of funds, in many cases, members of a union or a self-help group can sustain their activities by paying out of their own pockets. While receiving grants, how much they can solidify the foundation of their activities is very important. For instance, while receiving the grants, they can accumulate such experiences as borrowing money from microfinance, learning how to use money and building up their ability to pay back the money with interest. Then, even after grants cease, it is possible to create a system in which they can use loans from local banks to sustain their business activities.

**Matsubara**/ From my point of view, the donation does not last forever. What is necessary is not support, but the system that can realize “independence” and “self-reliance”, and for these we need investment. In detail, the concept and framework of investment is required.

**Questioner I**/ I am from Vietnam. My question is “How do investors prioritize issues, when there are so many social issues and how they want to invest in future?” In Vietnam, the environmental issues are the most highlighted, but the disability issues are invisible. I would like to ask how the people with disabilities can convince the investors that the disability issues are as important as others.

**Mr. Matsubara**/ Actually, investors also have a hard time making decisions. Investors actually are those who provide monetary funds, such as pension funds that are entrusted to us as an important old age fund. We hope you convey your message to investors through dialogues about what kind of problems you seek to resolve and what kind of meaning it has for investors to change the monetary investment chain into a humanitarian chain. Of course, in reality, there are trade-off relationships. Sometimes, we need to make priorities from the perspectives of such criteria as materiality, ripple effects, sustainability, and also a range of areas. By hearing from various stakeholders, we will continue to make every effort to understand what really is an important issue.

**Ms. Kono**/ Last year, we held a social business competition, and 128 companies from 15 countries applied. We found that there were actually a lot of disability-related business ideas. The example I introduced earlier is one of them. They made us aware of new approaches to disability-related issues, and it was an eye-opening experience for us. We investors learn from these and feel motivated to think or to find something new in the field of persons with disabilities. I just heard that there are 1,000,000,000 people with disabilities in the world. If you raise your voice to say that the disability field is a huge market, that voice may be able to move society and then to move the investors. So never give up and keep raising your voices. If you come up with interesting business ideas, please let us know.

**Mr. Ito** / It was a wonderful question and answer session. The strongest point of the social sector is that we can define matters and put them into society’s agenda. For example, if somebody asks a company to make a product for persons with disabilities, the company may wonder whether such products can sell and make a profit. However, currently the concept of universal designs is regarded as a big keyword for product development. The concept of universality gives inspiration for useful products, not only for persons with disabilities, but also for the elderly and general public, and now the concept carries great impact in the mainstream of society. We probably can say that the social sector is where we have a lot of resources and potentials. In this session, we talked about how we can make social businesses flourish through social investment, and I hope you can feel the potential of social investment to solve social problems.

**MC**/ We now will close session 5.