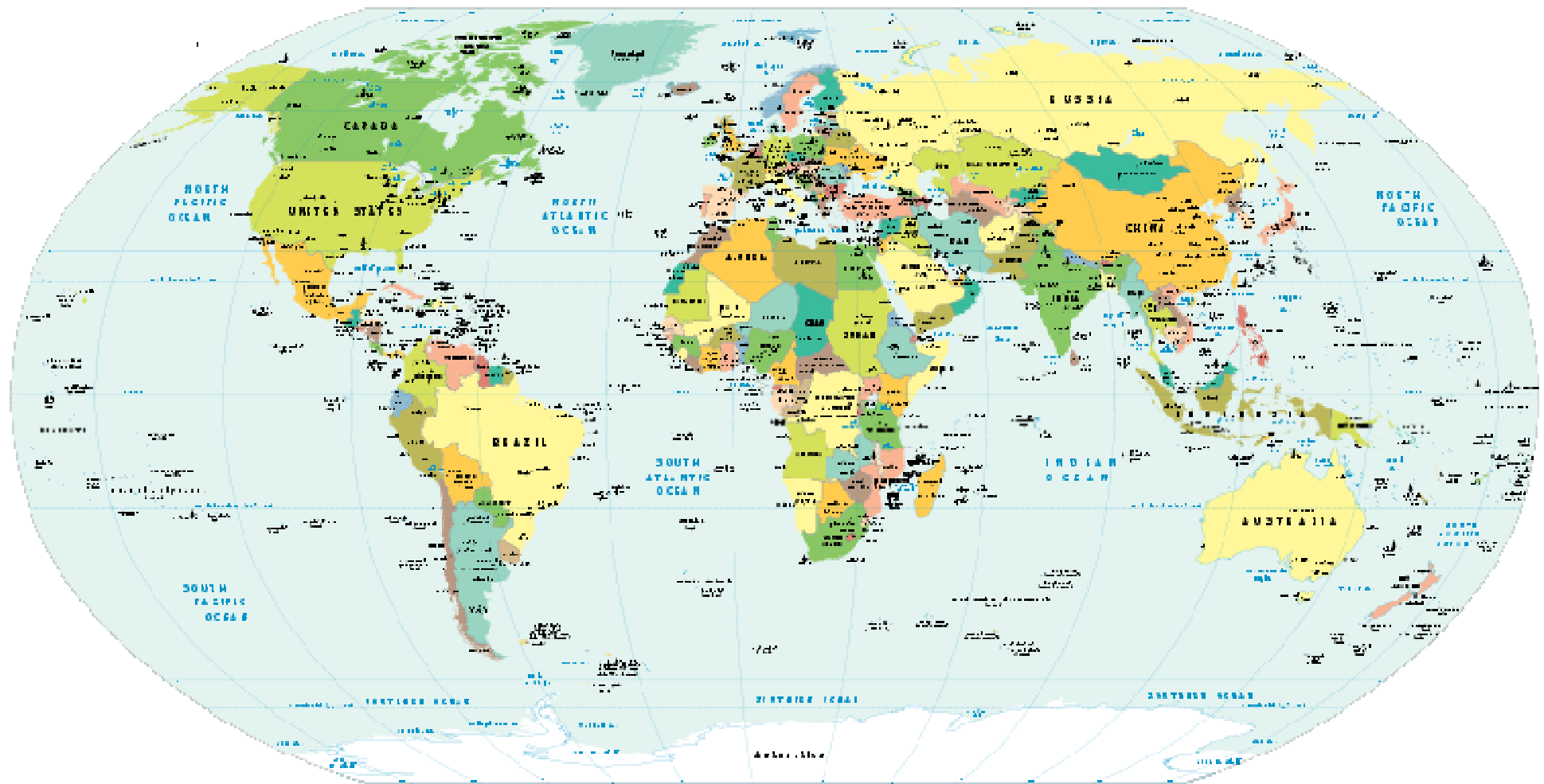# 投資は世界を変えられるか

- Impact Investment市場の発展可能性 -

2010年4月17日
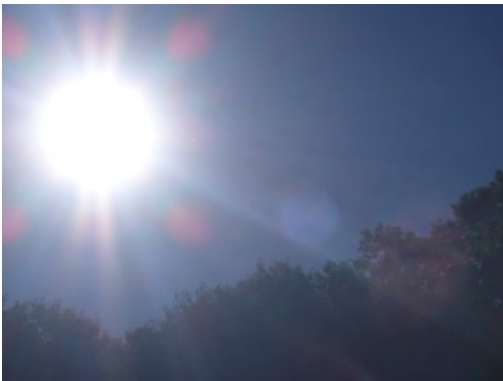
徐 勝徹

慶応大学大学院 経営管理研究科　特別講演

Where have I been?

What I learned in nonprofit

the *power* of **humanity**

One of the greatest
untapped resources

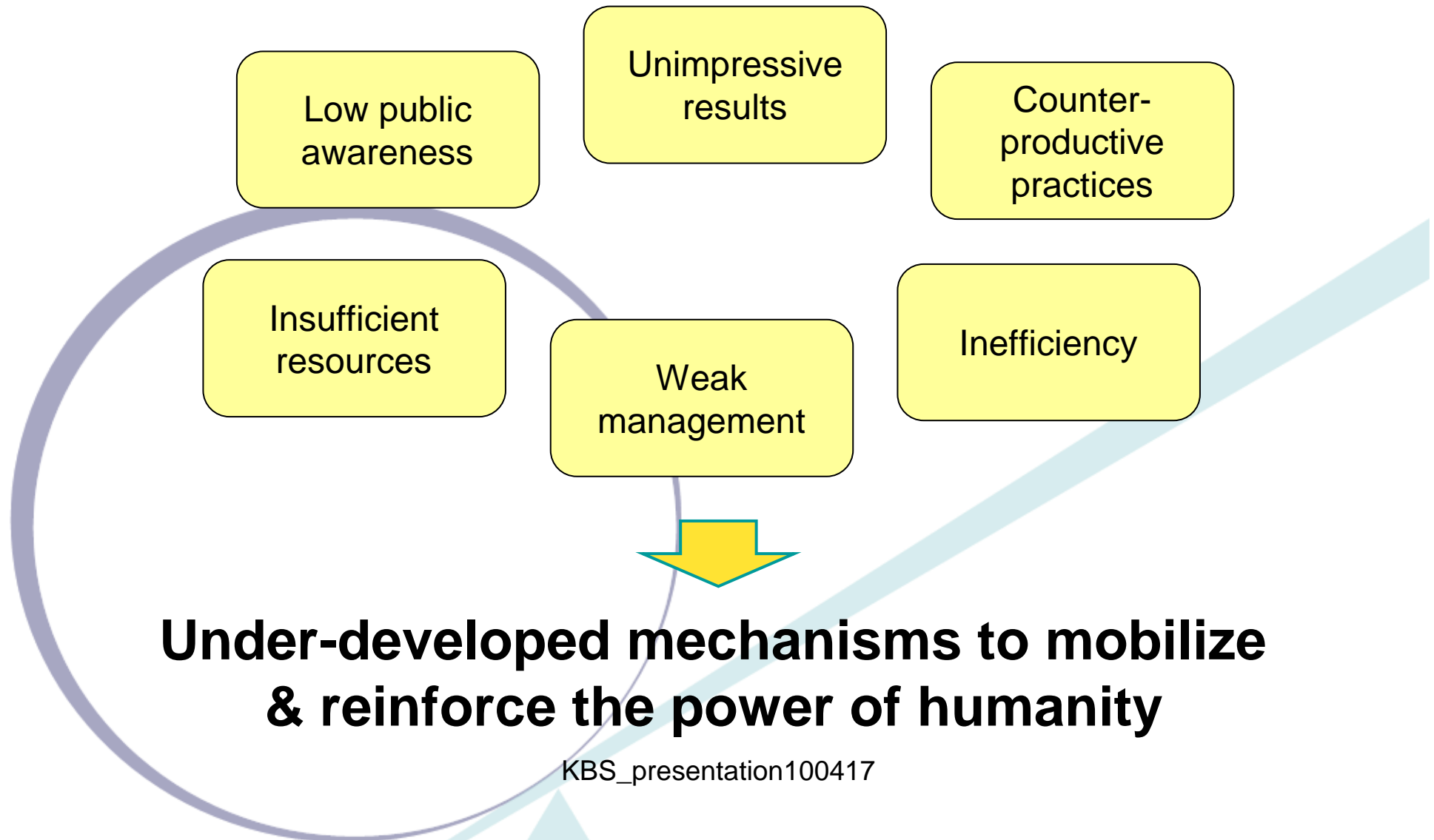# The power of humanity

- The power of humanity is not something only special (e.g. rich, noble, altruistic, talented, creative) people have

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Untapped because of...

Low public awareness

Unimpressive results

Counter-productive practices

Insufficient resources

Weak management

Inefficiency

Under-developed mechanisms to mobilize & reinforce the power of humanity

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What mechanisms are needed?

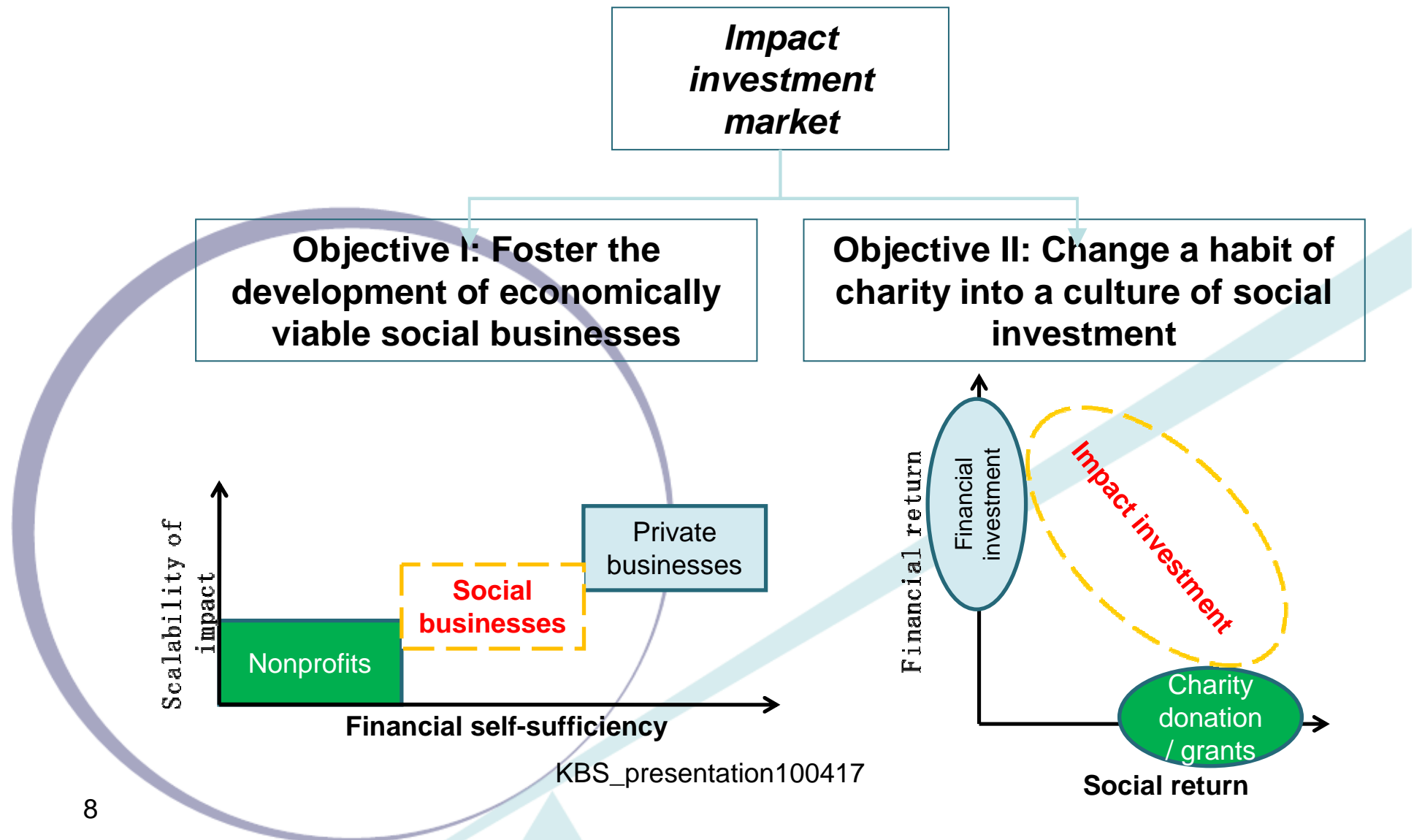- Mechanisms that:

  - Allow merit-based resource allocation

  - Promote diversity

  - Ensure accountability

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# Brazil experience

Why impact investment market?

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8

Objective I: Foster the development of economically viable social businesses

Scalability of impact

Nonprofits

Social businesses

Private businesses

Financial self-sufficiency

- Make the market open to social businesses with diverse activity focuses
- Make the pie of funds available to social sector bigger by complementing (not replacing) donation market
- Stimulate "coopetition" among social businesses
  - Measurement and benchmarking of social impact
 - Network of mutual learning and information exchange

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9
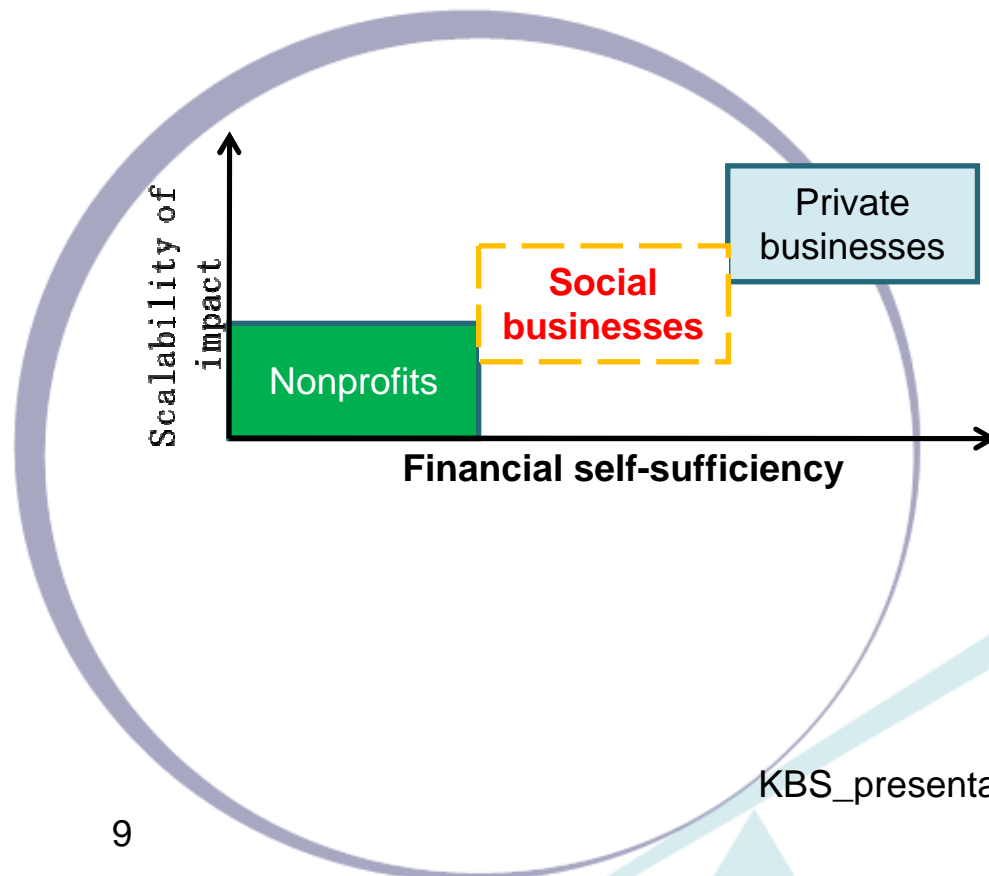
Objective II: Change a habit of charity into a culture of social investment

Financial return

Financial investment

Impact investment

Charity donation / grants

Social return

- Make the market more accessible to broad range of investors
  - Individual as well as corporate investors
  - Average-income as well as rich investors
- Provide adequate economic incentives to bring in those who are not interested in/can't afford to make donations
  - Repayment of principal and/or
  - Payment of dividends/interests

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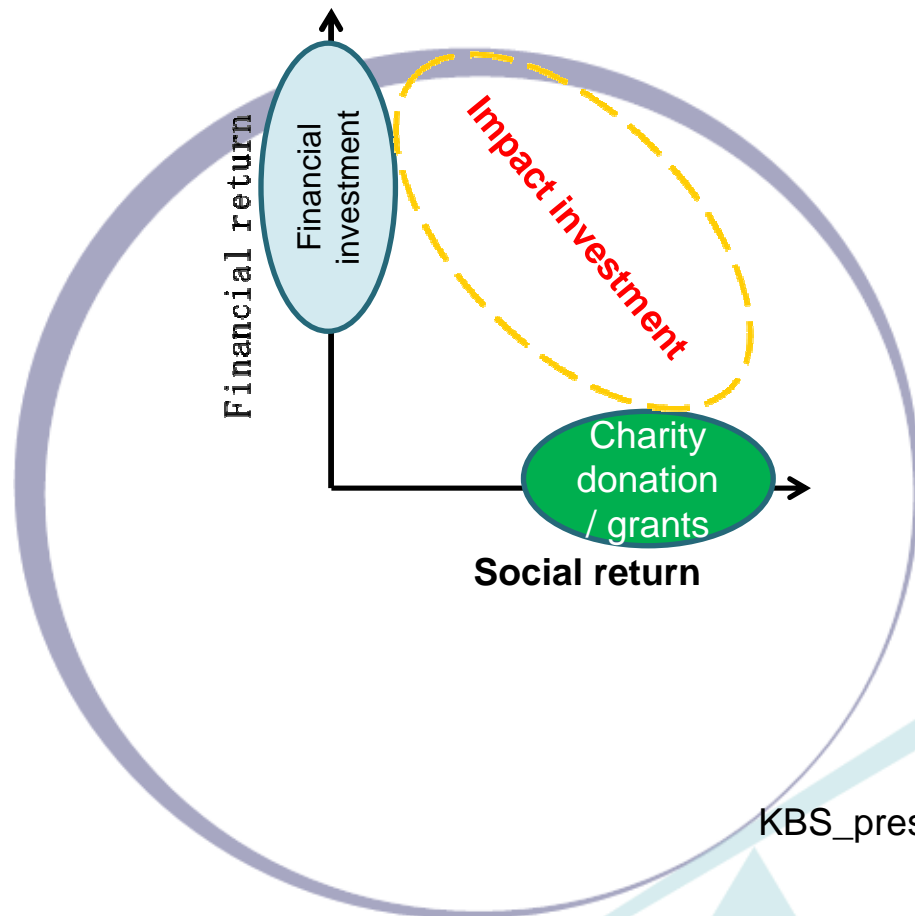
Two missions are linked by aligning investors' incentives toward maximization of social return

Mobilize resources to provide growth capital for social business

Inform investors of the social return their money has created

Reward investors in proportion to their contribution to social return

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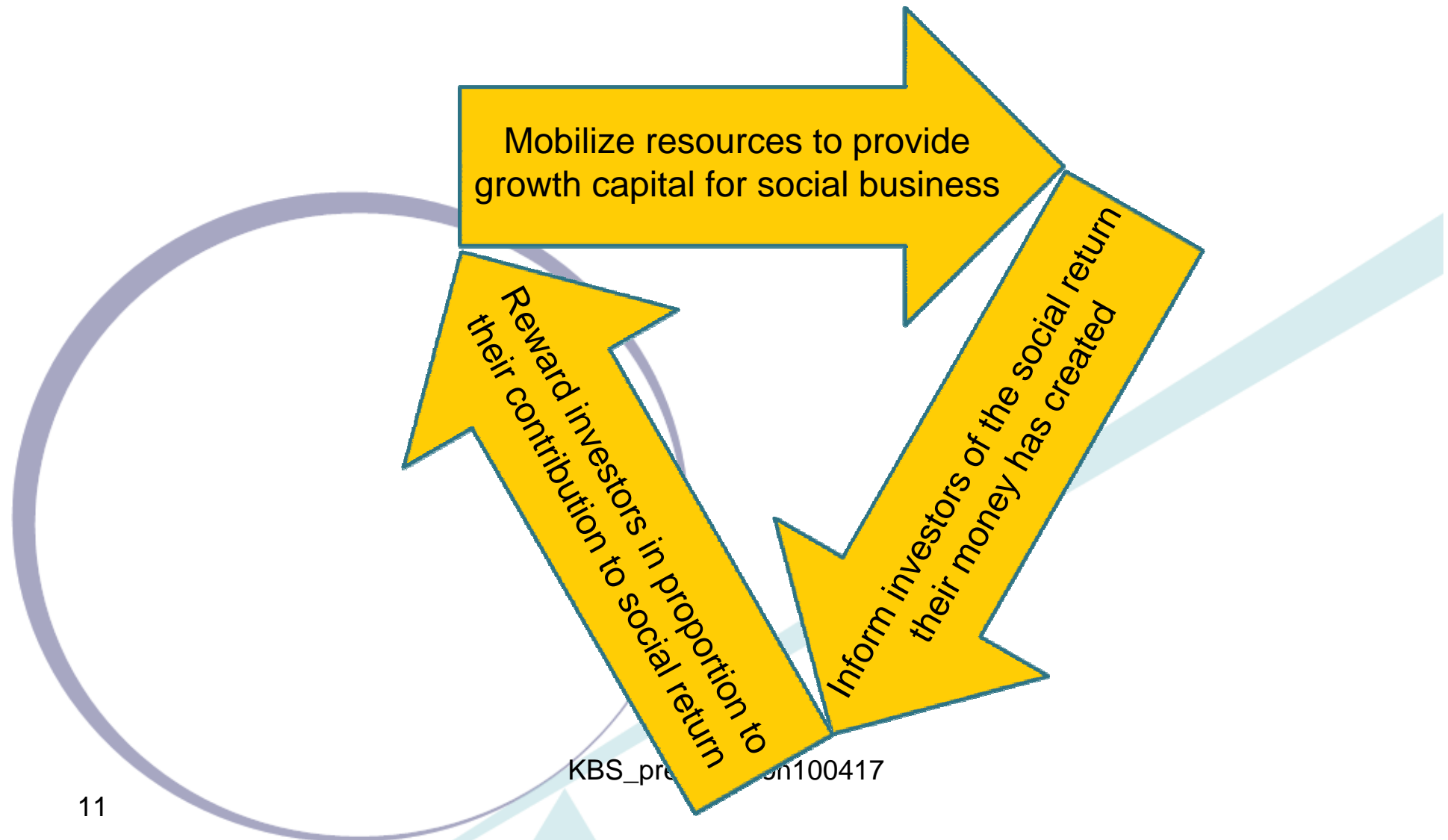
"Market-In" approach must be taken to design the new capital market for social businesses

Product-Out Approach	Market-In Approach
Make a product that we're good at making	Make a product that customers want
Figure out who want to buy it and how we can sell to them	Understand what customers want and how they want to buy it

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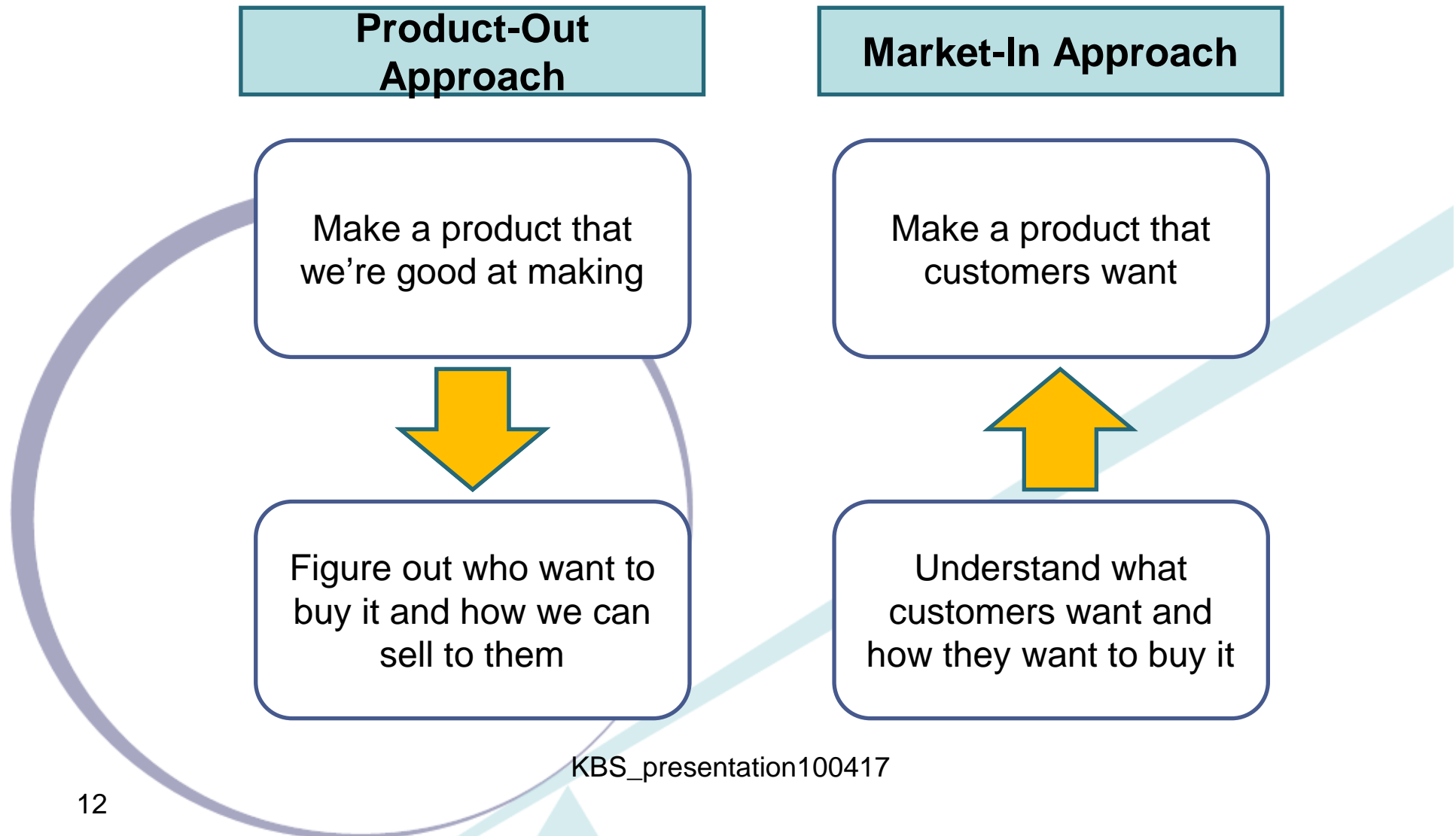
The new capital market for social businesses will be designed to satisfy both issuers' and investors' needs

Issuers' needs

Investors' needs

Market organizer

"Sweet spot" for impact investment market

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13

Key design parameters must be optimized

Design of impact investment market

For Whom?

Target market

- Issuer
- Investor

What?

Product

- Financial Instrument
- Platform

How?

Infrastructure/ Supporting services
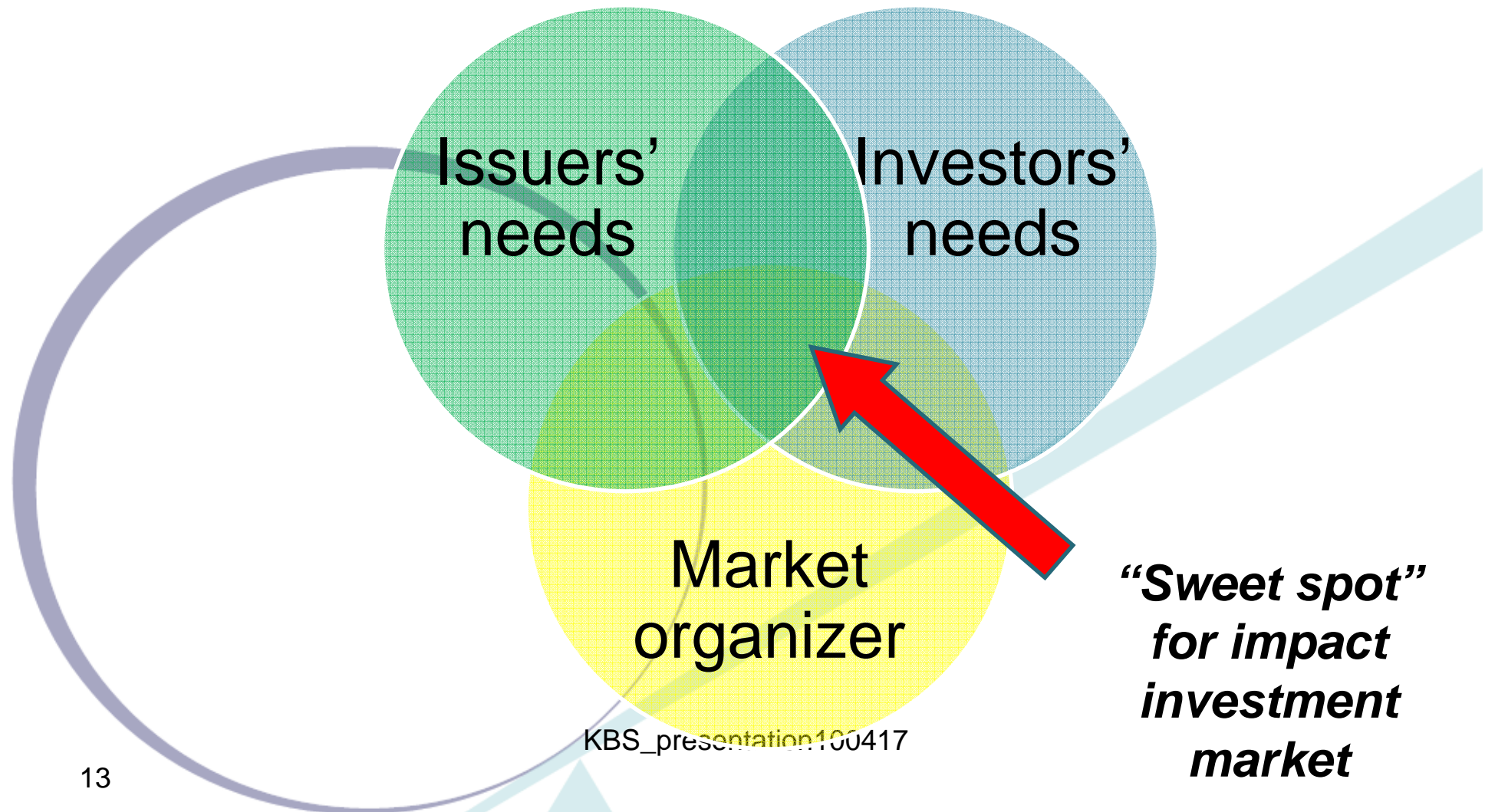
Key Design Parameters

- Issue areas
- Geographic areas
- Legal status
- Financial strength
- Stage of development

- Primary motivation
- Corporate/Individual
- International/Domestic

- Equity/Debt/Mezzanine
- Financial/Non-financial return vs Risks
- Timeframe
- Ownership/Control
- Costs/Obligations
- Transaction channel/protocol
- Liquidity

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14

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15

Building ecosystem is essential

Design of impact investment market

For Whom?

Target market
- Issuer
- Investor

What?

Product
- Financial Instrument
- Platform

How?

Infrastructure/ Supporting services
- Standards setting
- Marketing
- Screening
- Coaching & Network building
- Underwriting
- Financial & Social/Environmental auditing
- Monitoring & Supervision
- Money transfer

16
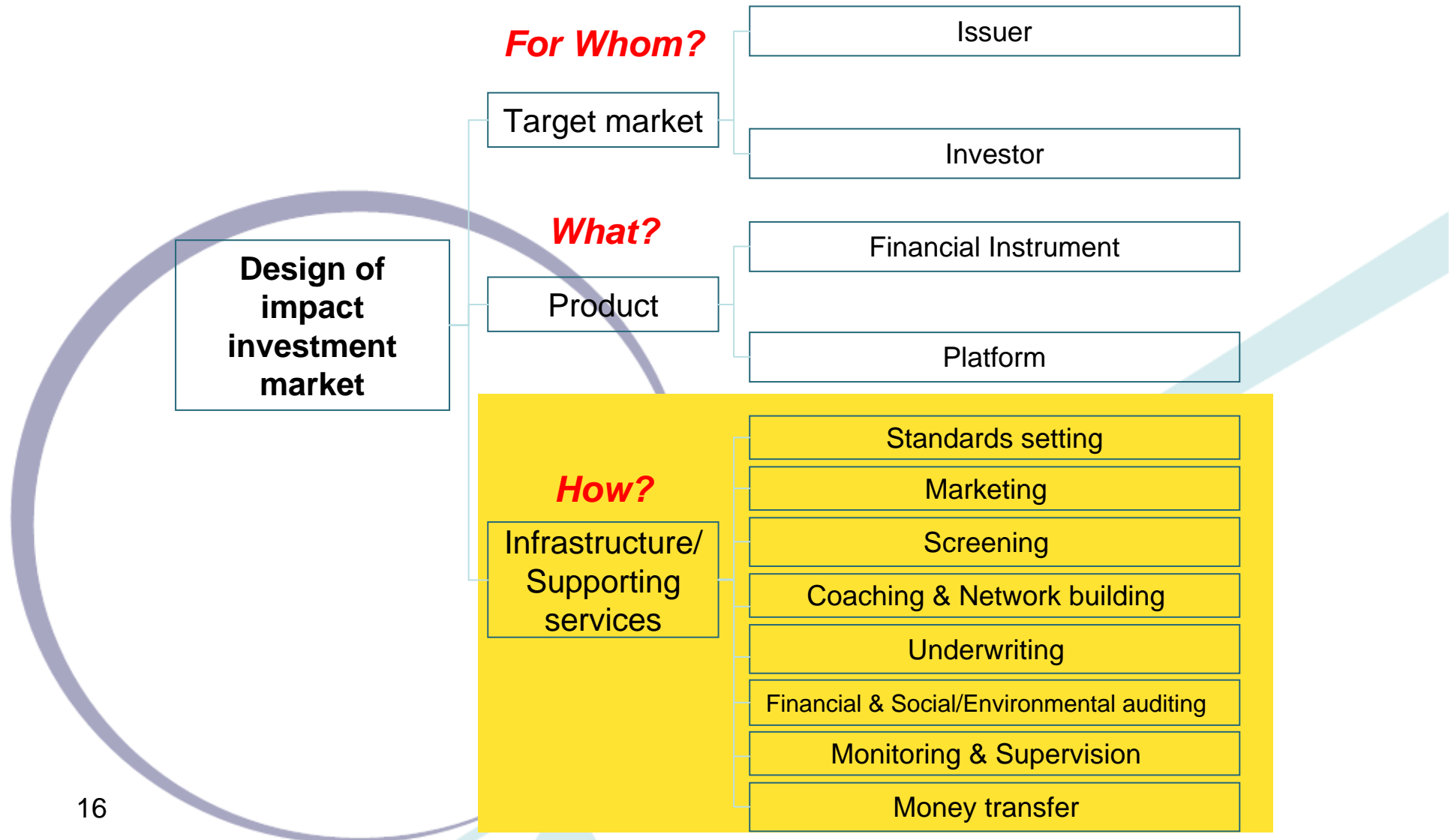
Our recommendations

Social enterprise					Social investor		
Issue areas	**Geography**	**Legal status**	**Financial strength**	**Stage of development**	**Primary motivation**	**Type**	**Geography**
Diverse	Diverse throughout Brazil	Nonprofit	Weak to medium	Early to mid-stage	Hybrid returns (financial + social)	Focus on individual investors	Initial focus on domestics investors

	Type of instrument	**Financial return for investor**	**Non-financial return for investor**	**Maturity**	**Voting right given to investor**	**Costs for social enterprise**	**Costs for investor**
Option 1	Bond (debt security)	No annual coupon	Measurable social benefit associated with investment in specific social enterprise	Principal repaid in 5 years	None	5% of face value at the time of bond issuance as transaction fee to the organizer	5% of face value at the time of purchase as transaction fee to the organizer
Option 2	Bond (debt security)	Annual coupon rate of 3%	Reputational "points" according to measurable, comparable social benefit created by investee social enterprise	Extendable maturity of 3 years or longer depending on social enterprise's performance in creating social benefit	None	5% of face value as annual interest payment (3% goes to investor and 2% goes to the organizer	5% of face value at the time of purchase as transaction fee to the organizer

The field is at the beginning of evolution

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Thank you for your attention

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