

Women's Finance Initiative Activates Japanese Economy SRI's Growth Potential in Japan



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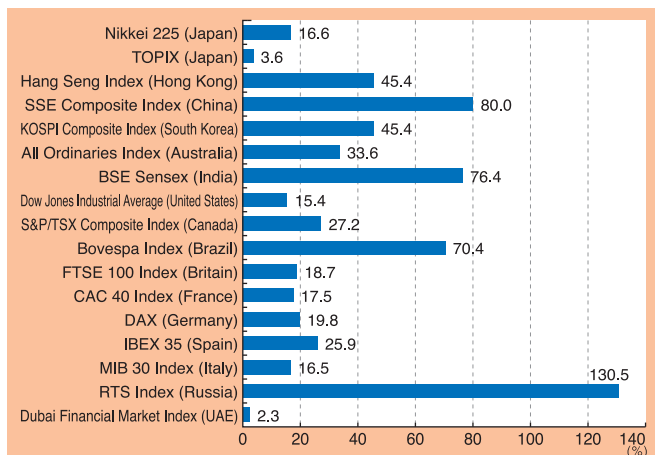
By Mizue TSUKUSHI

Introduction

Since the global financial crisis erupted with the collapse of Lehman Brothers Inc. in September 2008, the Japanese economy, in particular the stock market, has remained unable to get on the path to a full recovery. The *Chart* below shows 2009 up/down rates of stock markets in major countries.

CHART

Up/down rates of stock markets in major countries in 2009



Source: Compiled by The Good Bankers Co., based on key stock market index data in major countries in the world

The so-called Lehman shock sent Japanese share prices tumbling in December that year, stirring concerns about the stock market. At that time, I proposed to policymakers that the Japanese government adopt an SRI (socially responsible investment) approach. This policy calls for the government to make it clear that it will invest the portion set aside for stock investment out of Japan's overall public pension funds worth 200 trillion yen in equities of employment-conscious corporations (those making utmost, visible efforts to ensure job security for their employees). My point was that a government statement to use this approach would help temporarily arrest the slide of share prices and that the resultant respite would give the government leeway to consider a variety of policy measures. In this way, the proposal would help put the Japanese economy back in shape. I firmly believe my proposal, though not adopted by the government, is still right. Also, I am confident that national commitment to the SRI approach is effective in reactivating the stagnant Japanese economy.

What Is SRI?

Usually, stock investment is made only from a financial point of view. In SRI, investment decisions are made by figuring out how cor-

porations are trying to address environmental problems, build relations with their stakeholders such as shareholders, customers, employees and regional communities, and assume social responsibilities. Ensuring job security is regarded as one of corporations' important social responsibilities. SRI is characterized by the greater presence of such investors as labor unions, consumer cooperative associations, life insurance firms, foundations and public pension funds as well as women and individuals.

History of SRI

The origins of SRI are said to date back to the 1920s. Some US religious institutions avoided industries involved in alcohol, tobacco and gambling, saying investments in such businesses go against the ethical standards of their type of Christianity. In the 1960s, investments in war industries were boycotted to protest the Vietnam War. Further, those opposed to South Africa's *apartheid* racial segregation policy launched a campaign to sell off shares of corporations with equity stakes in South Africa. Then, in the 1990s, so-called green funds (eco-funds) were set up one after another in the United States and European countries, reflecting growing awareness of global environmental issues.

The global assets of SRI funds currently under management are estimated at \$4 trillion, and are expanding steadily. In anticipation of this trend, Western nations, especially European countries, have chosen to take policy measures to create a better environment for SRI. According to statistics released by the European Sustainable Investment Forum (Eurosif) on Sept. 14, 2009, taking the lead in introducing SRI through legislation are Norway, the Netherlands, Denmark, Germany and Britain. On top of these, France, Sweden, Belgium, Austria and Italy have followed suit. Elsewhere, Canada, Australia and New Zealand are among other SRI promoters. In general, these countries started with SRI fund investment as a way to manage their public pension funds. In Europe, the global financial crisis triggered by the Lehman mess is said to have made SRI an even more important investment tool.

SRI in Japan

Japan's first SRI fund was launched in 1999. Named Nikko Eco Fund, the investment trust fund was jointly developed by The Good Bankers Co. and the Nikko Securities group. The purpose of the SRI fund was to incorporate not just profitability of corporations but the degree of their response to environmental issues into yardsticks of investment decisions. This investment approach sought to induce corporations to vie for better performance in environmental terms, thereby lessening the industrial sector's burden on the environment and thus making the Japanese economy as a whole more mindful of the

environment. The fund, far beyond projections by many market analysts, grew strongly to 23 billion yen within only 10 days to become a hit investment tool. The vast bulk – 99% – of subscribers to the fund were individual investors (largely women, young people and those having no experience in stock investment), a composition that drew much industry attention as the emergence of a new group of investors.

The total assets of the Nikko Eco Fund surpassed 100 billion yen within four months after its launch. As other firms later set up similar funds, the Japanese eco-fund market eclipsed 200 billion yen within six months after the establishment of the Nikko Eco Fund. Around that time, the corporate sector – the target of investment – became more mindful of environmental issues. For instance, a dramatically increasing number of companies began to acquire such international standards for environment-friendly management as ISO 14001 and the EMS (environmental management system) and publish numerous environmental reports.

Eco-funds for Individual Finance

In this way, eco-funds displayed unlimited possibilities of individual financing in that active personal stock investments in selected corporations committed to environmental protection ended up drastically changing corporate attitudes. It is the first time in the history of SRI that a single SRI fund has grown rapidly in such a short period to bring about a change in corporate behavior. While the Nikko Eco Fund grew to 100 billion yen within four months after it was launched, similar funds of KLD Research & Analytics Inc. of the United States as well as of Jupiter Asset Management Ltd. of Britain took a decade and seven years, respectively, to grow to that level. As early as in January 2000, or only several months after the launch of the Nikko Eco Fund, the United Nations Environment Program (UNEP) paid attention to Japanese eco-funds and commended them as the most successful green finance approach for the resolution of environmental issues.

The market size of closely watched Japanese eco-funds, however, shrank on the bursting of the dot-com bubble in 2001, which sent the Japanese stock market tumbling. It later contracted further as some fund managers and financial analysts criticized the concept of SRI as “politically motivated and unfit for fund management.” The current market size of Japanese eco-funds is estimated at 400 billion yen.

SRI – Tool for PPP

As mentioned above, SRI emerged from religious beliefs and ethical views of individuals. It has now developed into a tool for promoting what may be called public-private partnership (PPP) that has a broader social viewpoint and is linked to government policies. To spur SRI further, UNEP announced the Finance Initiative (UNEP FI) in April 2006, hammering out the Principles for Responsible Investment (PRI) meant to reflect the Environmental, Social and Corporate Governance (ESG) in investment decisions. As of April 2009, 534 institutional investors in Japan and abroad signed the PRI, with the total assets of their funds under management estimated at more than \$17 trillion. Bucking the global trend, however, the Japanese government has yet to appropriate public pension funds for SRI.

SRI – Growth Potential in Japan

In May 2004, the Japanese government proclaimed the Law Concerning the Promotion of Business Activities with Environmental Consideration by Specified Corporations, etc., by Facilitating Access

to Environmental Information, and Other Measures. This law refers to the need to promote investment in eco-funds and foster the SRI market. However, it has proved ineffective as it has no binding force.

Many stock markets in the world have tided over the September 2008 Lehman shock and got back on their feet. The Japanese bourse alone has yet to make a robust recovery. This is due partly to a lack of diversity in market players. Subscribers to SRI funds are largely long-term investors who are said to be little affected by volatile moves of share prices. For instance, Associate Professor Yoko Shirasu of Aoyama Gakuin University pointed out there is a positive correlation between SRI ratings such as the environmental friendliness of companies and their corporate values. In her report titled “*Regarding Profitability of Socially Responsible Investment (SRI) Funds*” announced at the Financial Services Agency in June 2009, Shirasu said that from the viewpoint of medium-term investment, SRI-related stocks can be regarded as highly stable stocks little affected by market fluctuations. In this regard, SRI screening helps in ensuring return on investment, she noted.

Japan has to take every possible policy measure to achieve its target of reducing CO₂ emissions by 25% from 1990 levels by 2020. At the same time, it needs to try to re-energize the economy and ensure its sustainable growth. Recovery of the stock market promises the rejuvenation of the economy as a whole. The economy remains stagnant mostly because funds remain static. In other words, demand is created if fund flow becomes active. Against this backdrop, it will become even more important to consider how to activate the flow of an enormous amount of Japanese financial assets – 1,440 trillion yen in individual financial assets, including 200 trillion yen in public pension funds.

Women’s Finance Initiative

With no exceptions, SRI eco-funds were launched by women – not merely in Japan but all of such major Western nations as the United States, Britain, France and Switzerland. For child-bearing/rearing women, sustainability of the globe is of absolute importance. Moreover, women are most likely to take the leadership in the upcoming aged society in part because in general women have a longer life expectancy than men. Given such circumstances, commercial products fitting in well with women’s sensitivity are expected to sell briskly. That may be the case with financial instruments.

Particularly in Japan, traditionally household budgets are managed by women, and not a few full-time homemakers completely manage the salaries of their husbands. Further, approximately 70% of financial assets in the household sector are said to be owned by those aged 65 or older, and there is no doubt that women take the initiative in deciding how to spend money in such aged households.

Against that background, let me afresh suggest that the Japanese government take such measures as preferential tax treatment to promote investment in SRI funds, particularly those popular among women. With these steps, it should guide the flow of individual finance into green investment. At the same time, the government should oblige institutional investors, particularly public pension funds, to make environmental investment via eco-funds. The influx of fresh funds and investors is highly likely to help reactivate the Japanese stock market and the economy as a whole. **JS**

Mizue Tsukushi is president & CEO, The Good Bankers Co., set up by herself in 1998 as Japan’s first investment advisory firm specializing in developing SRI products. She sits on various government advisory panels.