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Shifts in consumer spending can drive ESG investing

ESG Talk

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Keiko Honda, who served as CEO and executive vice president of the World Bank Group's Multilateral Investment Guarantee Agency for seven years to 2019, promoted environmental, social and corporate governance around the world.

Looking back, she said, "The world has changed" because she increased opportunities for investors, who once had little interest in ESG efforts, to ask about progress in assessing performance as consumer awareness shifted, especially among millennials and young people in Generation Z.

Honda's first involvement with ESG came when she started working at MIGA in 2013. Under the two key goals of ending extreme poverty and boosting shared prosperity, MIGA aims to resolve development issues of emerging economies by guaranteeing political and credit risks of investees and promotes foreign direct investment by private-sector companies.

ESG investing, which incorporates non-financial information, began in 2005 when the United Nations started advocating it but came to be widely known only after 2015, when the adoptions of the U.N.'s sus-

tainable development goals and the Paris Agreement toward a low-carbon society became major driving forces behind it.

Behavior, lifestyles changing

Honda, who currently studies ESG investing as an adjunct professor at Columbia University, says she feels, through conversations with students, that "Young people are driving the world in a significant way." In Europe, for example, it is not unusual for people, when buying a life insurance policy, to compare insurance companies' ESG investing policies and choose a product from a company that reflects ESG factors in its investment decisions. For such financial products that pay out after many years, the company's ability to pay could be at risk unless it takes ESG factors into consideration in its investment decisions.

Consumer behavior is also changing. In the U.S., products confirmed to be free of child labor and forced labor, for example, are finding "a growing segment who buy them even if prices are 5% higher or so," Honda said. The choices of consumers who attach importance to shared values are driving changes in corporate and investor behaviors.

The COVID-19 pandemic has caused people's lifestyles to change, and the Russian invasion of Ukraine has caused the global economy to face energy and food

security problems. Honda predicts ESG investing, which has steadily expanded, will grow further. With respect to energy, for example, gas and oil prices have risen, leaving power companies no choice but to pass on the higher costs in their electricity and gas



Keiko Honda, adjunct professor at Columbia University's School of International and Public Affairs MEGUMI MATSUDA FOR PHOTOMATE

ills. This may remove some consumers' impression that renewable energy sources such as solar and wind are more expensive, which in turn may give momentum to those sources' further introduction.

A key concern, however, is a potential expansion of the defense industry. "Increases in defense spending are a worldwide trend," Honda said. "The defense industry has the potential to continue to grow."

materiality."

On the other hand, in EU countries, "double materiality," which also takes positive impacts on society into consideration, in what Honda calls "impact investing," is advocated.

When Honda was serving as MIGA CEO and executive vice president, there was a port development project in Senegal. The project improved port operations, and as a result the export of fresh fruits became possible. This in turn resulted in increased revenues for farmers and led to improvements in education, which were "unexpected impacts," according to Honda. However, there are only so many projects that can both help solve social issues and generate returns through investment and corporate activities. According to a survey, the total amount of ESG investing of the world exceeded \$31 trillion in 2020, but the figure for impact investing reached only about \$700 billion.

"The key is to work on single materiality first and pay attention to, for example, how earnings may be impacted if a flood hits," Honda said. Honda sees potential for technology to help resolve issues such as climate change. "If it becomes possible to manufacture storage batteries more simply and at low cost, for example, it will be a major progress for the world," she said.

Progress for Japan companies

Lastly, Honda said there has been significant progress in Japanese companies' disclosure of information about ESG factors. She said such disclosure creates opportunities for not just investors but also corporate executives, employees and con-



The Japan Times chairperson and publisher Minako Suematsu with Keiko Honda before the ESG Talk session MEGUMI MATSUDA

sumers to share information and think about the impacts of social issues and climate change on businesses. "If spending behavior of each consumer changes, especially among young ones, businesses have no choice but to listen to their views," Honda said. In that sense, changing consumer behavior will become a factor for expanding ESG investing.

Honda said the dissemination of information in English is also important. The worldwide total of assets under management by institutional investors is estimated to be \$110 trillion, of which North America and European institutional investors represent 50% and 25%, respectively. In order to raise funds from wider circles, Japanese companies should make more efforts to communicate information in English, she said.

"When it comes to ESG, there are differences among Europe, the U.S., Japan and Asia," she said. "It is important for [Japanese] companies which have overseas operations to understand viewpoints of local investors and people through information from local media outlets."

The ESG Talk series are interviews with business leaders who are active proponents of ESG investing and practices in Japan.



Chart showing asset owners by region reveals that North America owns almost half.

BOSTON CONSULTING GROUP, "GLOBAL ASSET MANAGEMENT 2021" JULY 2021

OAT Agrio's agrochemicals are from nature, for crops

Satoyama~Authentic Japan

MAIKO MURAOKA
CONTRIBUTING WRITER

OAT Agrio Co. Ltd. operates its business with the corporate philosophy of "We contribute to the people of the world with our agrotechnology and sincerity." Listed on the Prime Market of the Tokyo Stock Exchange, the company was established in 2010 through a management buyout from Otsuka Chemical Co., a member of the Otsuka Holding Co. group. "At that time, projections announced by the Food and Agriculture Organization (FAO) of the United Nations showed that an increase in food production of about 70% is necessary to feed the world population of over 9 billion people by 2050," said Hisashi Oka, president and CEO of OAT Agrio, in a recent online interview with The Japan Times.

To achieve the growth of food production, the prevention of diseases and pests is indispensable. "According to FAO, who declared 2020 as the International Year of Plant Health, 80% of foods we eat are of plant origin, up to 40% of which is damaged by diseases and pests every year," Oka said. "Repetitive use of the same agrochemicals allows pests and diseases to develop resistance properties. It is our mission to search for new chemical compounds consistently."

However, the company is pursuing more than just the effectiveness of the new chemical compounds. They have been focusing on the research and devel-

opment of materials based on environmentally and human-friendly materials derived from natural substances and food additives. "For example, Suffoil, which is made mainly of safflower oil, kills mites by suffocating them. The oil film also prevents their eggs from hatching," Oka said.

Another important factor for plant growth is getting enough nutrients. However, Oka pointed out that excessive use of chemical fertilizers can damage the soil. That is why OAT Agrio promotes the method of fertilization through a drip irrigation system to supply just the right amount of fertilizer and water at the roots of plants, timed with each growth stage to avoid excessive doses. "A green pepper farm in Ibaraki Prefecture that adopted this system succeeded in reducing the amount of fertilizer by about 25%," Oka said.

OAT has further developed technology that can automatically diagnose each growing stage by using artificial intelligence with various sensor cameras.

Also, a solution service for the entire cultivation cycle has been developed: Agrio Ichigo Master, which provides a package of required materials (agrochemicals, fertilizers and biostimulants) and the cultivation technology at a fixed cost. The service specializes only in strawberries at the moment but will expand to other crops in the future. This surely will reduce the load on farmers and secure crop yields even for new farmers.

The issues of global warming and climate change cannot be resolved through agrochemicals or fertilizers. Drastic changes in the natural environment, such as temperature and precipitation, can be stressful to crops and lead to degradation in their quality and yields.

To solve this problem, OAT Agrio is dedicated to the development of biostimulant products that boost the immune systems of plants, increase resistance to abiotic stresses like cold and hot weather, and help against diseases and pests. OAT Agrio now supplies biostimulant products to over 50 countries, Oka said.

OAT Agrio is also trying to make the company itself good for the environment and society. Its main factory, located in the city of Naruto in Tokushima Prefecture, has already adopted renewable



Cultivation and Research Center in Naruto, Tokushima OAT AGRIO

energy proactively, and some of its affiliates across the world have installed solar panels and LED lighting for office buildings and manufacturing facilities besides adopting renewable energy electricity.

In terms of emissions reductions, OAT Agrio has completed calculations and analysis of Scopes 1 and 2 for how much carbon dioxide is produced by the company itself and through its purchased and acquired energy. "Based on our findings, we will be accelerating our emissions reduction efforts. We are also working on where and how much CO2 is generated in the entire supply chain right now," Oka said.

Another new challenge that the company is taking on is to expand beyond the business-to-business market and reach out to the general public through its e-commerce website and social media. It aims to communicate the importance of making agriculture sustainable not only to growers but also to consumers by offering tools and opportunities to experience the joy of cultivation, saying that growing one's own food is fun in itself and brings happiness to all those who eat it. "Enjoying kitchen gardening at home — that is a way to contribute to the increase of food production too," Oka said.

The Satoyama Authentic Japan series highlights issues related to the environment and a sustainable society. For more information visit <https://sustainable.japan-times.com>.



ESG/SDGs

TOMOKO KAICHI
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The International Conference for Women in Business, focusing on diversity-oriented business management and the lifestyles and work styles that support it, was held online on July 10.

The 27th annual event organized by ewoman, Inc. had the theme "Drive Diversity." It featured keynote speeches and panel discussions involving more than 50 prominent figures in various fields. About 1,100 people from 20 countries, mostly Japanese but also from the United States, the United Kingdom, Mexico, Australia and South Korea, attended. They had diverse backgrounds and ages and included students and working adults.

Ewoman CEO Kaori Sasaki, the founder of the conference, serves as its general producer and chairs its executive committee. "Each of us should take the initiative and promote diversity, and we should join hands with each other," she said while discussing her thoughts about this year's theme. "That way, we can make our society, companies and local governments better."

Yumiko Murakami, who has worked to promote women's empowerment as a member of Prime Minister Fumio Kishida's panel on the "new form of capitalism," his pet policy, served as the facilitator for a panel discussion on the theme of "new capitalism" created through diversity management.

"The world, and the economy we're living in, is very much focused on shareholder value and market-driven economy," said Murakami, a general partner at MPower Partners. "Maybe some other very important things — for example, environmental issues and inequality in access to economic opportunities — some of these issues are not really well captured, nor well understood, in



Speakers of the panel session moving organizations with finance EWOMAN, INC.

the current form of capitalism."

But the situation has changed over the past few years. According to Cartier Japan President and CEO June Miyachi, who has worked in Europe for many years, measures against discrimination based on gender, ethnicity and sexual orientation have been stepped up in France.

Maiko Todoroki, president and CEO of Poppins Corp., which provides services to support working women caring for children or relatives, said that companies that do not take action toward the U.N.'s sustainable development goals (SDGs) or on environmental, social and governance (ESG) issues are now finding it difficult just to raise funds.

In December 2020, Poppins listed on the first section of the Tokyo Stock Exchange in Japan's first-ever "SDGs-IPO." Japanese use the term to describe an initial public offering for companies whose mission is to help achieve SDGs. The tendency to consider SDGs and ESG factors in making investment decisions, which initially grew among European investors, is reportedly spreading to their Japanese and U.S. counterparts.

Claire Chino, who serves on Itochu Corp.'s audit and supervisory board, returned to Japan recently after serving as CEO of Itochu International Inc., a subsidiary based in New York, for five years. She said investing in efforts to promote diversity, not just in terms of gender, is an important way to help companies appropriately respond to changes in the market and continue to grow in the long term.

All panelists agreed that investments aimed at promoting diversity have positive impacts on business performance. It is said that women's empowerment is hampered by biased views that women should stay home and care for children, as well as by government measures such as spousal tax deductions for husbands if their wife's annual income is low, a disincentive for women to work full time.

In a discussion on the theme "moving organizations with finance," panelists exchanged views on the roles of women in organizations, especially financial institutions.

The facilitator of the session, NEC Corp. Senior Vice President Asako Aoyama, referred to the U.K. Financial Conduct Authority's announcement of a policy calling on businesses to have women make up at



New capitalism session panelists with event organizer Kaori Sasaki EWOMAN, INC.

least 40% on their board of directors as a way to increase diversity at listed companies.

Sue Kinoshita, minister counselor for economic diplomacy at the British Embassy in Tokyo, noted that the figure is a target and explained it was raised from an earlier target of 33%, which was achieved in 2020.

"Investors learned that companies with higher female representation had higher earnings, and began to note the figure," Kinoshita said, explaining the reason. "In addition, a growing number of people, including men, now prefer to work for a company where women can play active roles." It is a case in which making data visible resulted in companies spontaneously initiating reforms.

Tamao Sasada, country executive for Japan Bank of America, said the leadership qualities of top management are important in promoting diversity. The bank's CEO has worked to increase diversity at its organization based on the belief that the more diverse an organization is, the stronger it is. The bank has also been working to develop an environment and systems in which women can play active roles by, for example, promoting those who have excellent track records.

Chie Toriumi, a senior managing director at Nomura Holdings Inc., said that ideas specific to Japanese corporate culture, such as giving primacy to seniority, "broke down in a positive way" in the Nomura group after it bought former Lehman Brothers divisions in Europe and Asia. The number of women in management ranks in the Nomura group has increased to 660, 30 times the figure two decades ago, Toriumi said.

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