



**Community-based Environmental Business in Japan**  
**- In the Emergence of Social Enterprise -**



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## Community-based Environmental Business in Japan - In the Emergence of Social Enterprise -

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### ABSTRACT

Environmental Business tends to be regarded as an industrial sector of market economy. However, the mainstream of Environmental Business does not exist in market economy, but in the third sector of community-based organizations, which is different from economies of private enterprises and governments. In fact, this trend is emerging in various parts of the world.

The community-based third sector, which consists of non-profit-organizations (NPOs) or cooperatives etc., builds "Reciprocal Economy", interacting with "Exchange Economy" of markets and with "Redistribution Economy" of governments. It is difficult to find solutions in a simple framework of market or government; market has "market failure" and government has "government failure", and expectation for the third sector is rising.

The third sector has a long history, but since 1990s it is changing its nature. Organizations that has incorporated the concept of "Social Enterprise" started to appear in the area of welfare. The third sector is developing a new stage.

On the other hand, market economy has tried to correct market failure and internalize external diseconomy, and started to support the third sector through partnerships as a developed activity of Corporate Social Responsibility (CSR). Governments are promoting new public management and outsourcing businesses to private enterprise and the third sector.

This paper firstly tries to connect ecological movements that started around 1970 and social enterprise that is emerging since 1990s. Secondly, it examines the situation of environmental business by social enterprise by selecting Japan as a country for analysis. As one-village one-product movement of Japan has widespread into developing countries in the world, community-based environmental business in Japan is also expected to be a good reference to the world. Lastly, the paper overviews policy agenda for promoting community-based environmental business.

**Key Words:** *Third Sector, Social Enterprise, Community Business, Environmental Business*

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## 1. INTRODUCTION

Community-based Environmental Business is a citizen centered local business with huge potential, and its business environment is gradually improving. "Community-based" does not mean that community area is closed and totally independent. "Environmental Business" does not always limit the business area to the environment and make a profit. Community-based Environmental Business utilizes national/global knowledge and money, having a basis in local community, and continues such activities as reduction of environmental load or nature regeneration by extending its scope to include welfare or town development. Building an economy where local society can fulfill its needs and be self-reliant by further utilizing local resources or capitals is gradually getting a grip on reality.

Local society was dramatically changed by modern industrialism. It became wealthy in terms of materials, but lost self-reliance through the separation of production and consumption, and prosperity of non-real economy that is expanding money flow. It has brought negative wealth in the social and environmental areas. In order to cope with these situations, it is important to incorporate environmental considerations into market economy that has generated the causes, and also for local society to regain its self-reliance by raising businesses that respond to local society's needs and can be conducted by local people. Local socio-economic vision, which puts basis on local society and utilizes market economy, is an agenda to be achieved. As Seldman (IGES, 2006) states that "So we now really have two definitions of sustainable development. One definition, the community sustainable development, which I work in, argues for new rules that will not allow pollution. (The other one ) is to do something that makes you look good but don't change the system", the mainstream of sustainable development is in local society.

Local society has had difficulties in finding new ways under the circumstances of expanding market economy, although importance of local society has been recognized. However, there have been various changes, which are giving hope to local society. Life style change: from materialistic to psychological satisfaction, return to trust worthy human-faced economy, decentralization of power from central government to local governments, restoration of local culture, dispersed energy technologies are the driving forces for local society regeneration. Among the changes, the changes in the third sector<sup>5</sup> are especially important. The third sector, which consists of not-for-profit organizations (NPOs) or cooperatives etc., has existed for a long time, but recently a new concept of social enterprise is emerging. Social enterprise has mainly worked on welfare business, and is expected to work on culture and the environment in the future (Borzaga, 2003).

The structure of this paper is as follows: Section 2 "Backgrounds of Community-based Environmental Business", addresses the theoretical history for harmonizing the environment and economy and shows that the third sector is the mainstream for the harmonization. After entering

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<sup>5</sup> This third sector is different from the Japanese third sector, which has a meaning of company co-financed by local government and private enterprise. In this paper, the third sector means economy which consists of NPOs or cooperatives etc. and is different from the economies of government and market. It is a form of social economy. (Details in page 7.)

1990s, the third sector is having a big step forward with the emergence of social enterprise. Pressed by the environmental constraints, community-based environmental business has a huge potential. Section 3 "Backgrounds of Community-based Environmental Business and Relevant Policies in Japan" overviews relevant traditional Japanese culture and history of civic movements. Local society targeted policies would be administered mainly by local governments, but in present Japan, national policies still play major roles. In order to conduct local activities as a business, partnership building that utilizes economy of network<sup>6</sup> is the key in addition to traditional economy of scale<sup>7</sup> and economy of scope<sup>8</sup>. Japanese policies are still at an early stage and have not reached good models, but could be referenced by many countries. Section 4 "Cases of Community-based Environmental Business in Japan" introduces three typical cases in Japan. They are well known among the persons concerned in Japan, and analyzed from the viewpoint of social enterprise by the authors based on the site investigation. Lastly, section 5 "Conclusion" sums up the significance of community-based environmental business and overviews policy agenda to promote it.

It is expected that this paper is useful for Japanese and overseas people concerned in local development to think about their future directions and for people concerned in environmental business to see local society, where mainstream of sustainable development can be achieved.

## **2. Backgrounds of Community-based Environmental Business**

### **(1) In Search of Harmonizing the Environment and Economy**

Economic activity had been conducted without paying attention to the environment, and environmental pollution had been recognized as modern industry prevails. Since then, the relationship between environment and economy becomes trade-off. Governments, companies, and local residents were forced to choose environment or economy. Community-based environmental movements were mostly anti-pollution and anti-development. In this circumstances, a new momentum occurs, criticizing traditional economy and trying to harmonize the environment and economy. In 1966, K. Boulding issued a paper of "The Economics of the Coming Spaceship Earth", where he called economy that does not care about depletion of resources "cowboy economy", and appealed necessity of transforming to "spaceman economy" where materials circulate in a limited space. 1960s was an age of competition of space development between Soviet Union and the United States. Apollo 11 landed the moon in 1969. Space technology has made it possible to see the Earth from the outside, which gave an opportunity to sense the beautifulness and finiteness of the earth and to change a view of the world to a lot of people.

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<sup>6</sup> Economy of Network means that as the number of user of a certain good or service grows, the value of the good or service increases, which can be seen in telephone service. Strategy to use Economy of Network is an open management that tries to linkage other economic entities. (Kokuryo, 1995)

<sup>7</sup> Economy of Scale means that the cost of good or service can be reduced by large scale production facilities. Seeking economy of scale leads to mass production.

<sup>8</sup> Economy of Scope means to raise economic efficiency by conducting multi areas of business. In local society, small businesses are interrelated and can raise efficiency.

In early 1970s, publishing of an economic vision under environmental constraints has been made one after the other: "Blue Print for Survival (1972)", "The Limits to the Growth (1972)", "Small is Beautiful (1973)", and "Toward A Steady-State Economy (1973)." Among these, Small is Beautiful of E.F. Schumacher proposes human-faced economics, introduces concepts of local economy and social enterprises, and keeps freshness even after 30 years from its publishing. It addresses necessity of distinguishing renewables from non-renewables, anticipation on global economy, necessity of community economics, importance of educating people, intermediate technology for poor society, expectation for workers' owned organization for profit sharing to society.

Thanks to the publishing, many people seem to have understood the limitation of the Earth. However, the trade-off relationship remains in the environment and economy. Overcoming oil shocks, policies that compete in economic growth were developed in 1980s. In this context, "The Other Economic Summit", which has an intention to counteract the Economic Summit, held its first conference in London 1984, and gave an opportunity for various concerned people in the world to get united. In 1986, the New Economics Foundation was established in UK, and the New Economics Movement<sup>9</sup> started. The movement is both theoretical and practical, seeks for new direction of economics, and focuses on "regeneration of local society." The framework of traditional economics consisted of micro economics for company level, macro economics for national level, and international economics. Since traditional economics did not have a viewpoint of local society, the New Economics Movement gained momentum incorporating such new concepts as citizens participation, social audit, or social enterprise (Fukushi, 2001). The results of the Other Economic Summit are compiled in a book "The Living Economy", which consists of three chapters of "In Search of New Economics", "Human-being First", and "Active New Economics", and includes papers on human-scale economy, regeneration of local economy, new cooperatives etc.

The concept of "Sustainable Development" was proposed in a UN Brundtland report of "Our Common Future" in 1987. After that, new relationships between environment and economy have been looked for: such phrases as "co-existence of environment and economy" and "integration of environment, society and economy" have been widely used. However, "sustainable development" is given a deliberately ambiguous definition so that political agreement can be reached with a wide variety of understandings.

1990s is an age of active publishing on the necessity of new economics (Robertson,1997) . At the same time, with the development of the Internet, NGO has strengthened its position of existence in global governance structures. NGO has appealed transformation of modern industrialism and played an important role in the Earth summit in Rio de Janeiro 1992. However, the transformation does not proceed as expected after the summit. The World Summit on Sustainable Development, which was held in Johannesburg 2002, managed to attain some results, but did not get

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<sup>9</sup> The movement is of the school of Schumacher, and its central role is played by the New Economics Foundation.

a momentum like the one generated by the Earth summit 1992.

After the concept of sustainable development was proposed, the concept of eco-efficiency was disseminated rapidly. Different from the traditional efficiency of economic value added per financial investment, eco-efficiency is an economic value added per used natural capital. The concept was proposed by the World Business Council for Sustainable Development, which also took an initiative on the development of Environmental Management System. Companies are raising eco-efficiency, incorporating various such environmental management tools as ISO14000 series. However, it is said that total use of nature is not decreasing, even though eco-efficiency is increasing. Eco-efficiency seems to contribute to economic aspects, but not to global environmental aspects. Rebound effects seem to be happening: switching to eco-efficient goods or services reduce environmental loads for a while, but as the total quantity of the goods or services increase, environmental loads increase.

An optimistic way of thinking that environmental problems can be solved by raising efficiency with technological development in free market belongs to "Ecological Modernization." It gives reflection on modern industrialism, but still is an economy-centered view and criticized that it is "hijacking environmentalism (Welford, 1997)." On the other hand, the theory of "Risk Society", which has emerged around the same period of Ecological Modernization, complements Ecological Modernization, reframes socio-economy more comprehensively, and tries to develop it more radically (Fukushi, 2001). Industrial society has produced not only wealth but also risk. In the classical industrial society, the logic of wealth production has dominated the logic of risk production, but in the present society, the relation is reversed: techno-economic progress is being increasingly overshadowed by the production of risk (Beck, 1992).

The theory of Ecological Modernization and the theory of Risk Society are basically targeting at the environmental issues. As for broader issues including politics, "Reflexive Modernization"<sup>10</sup> has been discussed. The theory of Reflexive Modernization does not remain in academic field, and is being put into practice as "The Third Way."<sup>11</sup> The Third Way is in between a way of thinking that emphasizes nation state like socialism or welfare state and a way of thinking that emphasizes individual like neo-liberalism. It targets at "democratization of democracy" including decentralization of power from central government to local governments, "active civil society" including utilization of the third sector, and "multiculturalism" towards the global age etc. (Giddens, 1999) World leaders like former US president Bill Clinton (1993-2001), UK premier Tony Blair (1997-), and former German chancellor Gerhard Schröder (1998-2005) have tried to implement the third way.<sup>12</sup> Socio-economy of the third way is explained in the followings.

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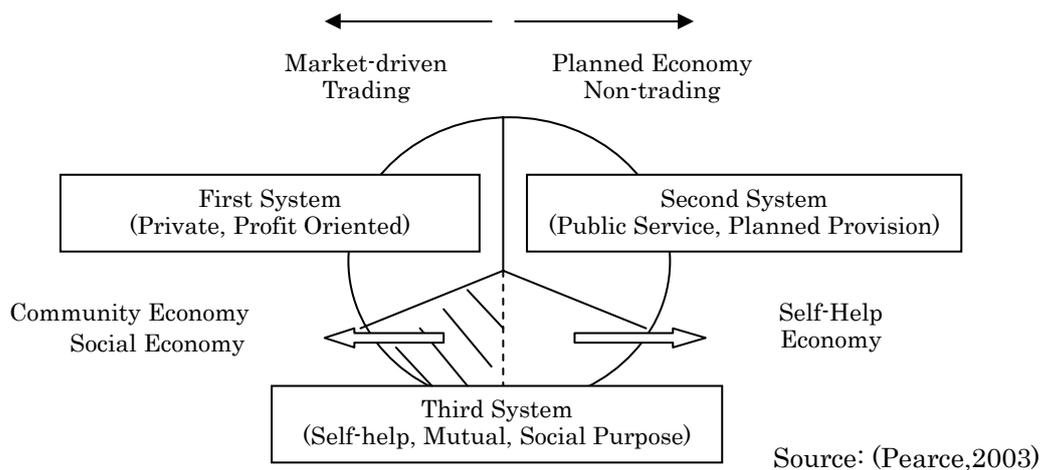
<sup>10</sup> U. Beck divided modernization process into two stages of "Simple Modernization" and "Reflexive Modernization."

<sup>11</sup> It is said that A. Giddens, a UK sociologist, was very influential.

<sup>12</sup> The Clinton administration took the third way, but relaxation of regulations and deficit reduction went to far in 1990s (Stiglitz, 2003).

**(2) Expectation Towards the Third Sector and Emergence of Social Enterprise**

After experiencing "government failure" and "market failure", society is looking for the third way, which promotes active civil society. The third way is a way different from a welfare state that emphasizes government roles and also from a neo-liberal economy that trusts market mechanisms. The UK government has a slogan of "from welfare to work", which well expresses the contents of the third way. After World War 2, the UK government took a welfare policy called "from cradle to grave", which caused such problems as financial difficulties and decrease of motivation to work. On the contrary, in 1980s the government developed policies that seek "small government." However, such problems as expansion of gaps between rich and poor and increase of unemployment have occurred this time. Then, the third way has come out. It has implemented a program that offers job training as well as payment for living to unemployed workers, so that they can participate in society as a worker rather than remain unemployed and receive welfare. This kind of program cannot be implemented by government alone. It requires big role of the third sector including NPOs at local level, and the third sector centered economy is expanding.



**Fig.1 Three Systems of the Economy**

It is said that there are three economic systems of "exchange economy", "redistribution economy" and "reciprocal economy" (Polanyi, 2003). Exchange economy is an economy of market, and improves total efficiency by letting each economic entity pursuit its profits. Redistribution economy by governments relaxes disparities that exchange economy produces. Reciprocal economy pursuits improvement of societies like family and local community, and extends to non-monetary exchanges. Figure 1 shows the three economic systems: reciprocal economy has a market-driven trading economy, which is called social economy or community economy.

In Europe, economic entities of the market-driven part of the third sector are classified into 1) cooperatives, 2) mutuals, 3) associations and foundations, and the economy that consists of these

entities are called social economy<sup>13</sup>. On the other hand, in the United States, NPO has historically developed. The third sectors of Europe and the US are very different each other, but recently common changes have begun to appear. That is emergence of social enterprise (Borzaga, 2003). Social enterprise, which is citizen-centered and does not pursue profits principally, is expected to appear in wider activities for the environment and society.

The term "social enterprise" was born in France in 18th Century. After that, it made a comeback in France around late 1970s in the situation that welfare state system has found itself in the limits of structural unemployment, social exclusion, and environmental problems, and spread into the EU block with the integration of the EU (Kasuya, 2005). In 1989, in order to promote social economy, the social economy unit was created in the Directorate General 23 of the Commission of the European Communities (previous body of the European Commission) (Tomizawa, 2000). The definition of social economy used in some countries are as Box 1.

**Box 1**

Social Economy includes various economic activities conducted by cooperatives and their relevant companies, mutuals, associations. The ethical stance can be expressed as the following principles:

- Objective is to contribute to members or community rather than making profits.
- Self-reliant management ( Promotion of voluntary entrepreneurship)
- Democratic decision making system (one vote for one person rather than one vote for one capital stock)
- Supremacy of human-being and labor over capital, in income distribution

(Borzaga, 2003)

Non-profit sector is similar to social economy, but there are some differences between them. Non-profit sector sometimes seeks for profits although profit distribution to concerned parties is not allowed, does not have a decision making system of one vote for one person, distributes profits for future activities and never for stakeholders as well as concerned parties. Both social economy and non-profit sector remained just showing the position of the third sector, and the relationships between the third sector and private sector and that of the third sector and government sector were static (Borzaga, 2003).

In this circumstances, a new concept of social enterprise has been evolving since mid-1990s. European researchers gathered and a research project<sup>14</sup> on social enterprise was conducted between 1996 and 1999. Social enterprise responds to delicate indigenous needs, which can not be provided by market economy and government. It incorporates desire of commitment to

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<sup>13</sup> Social economy is a term mainly used in Europe. It refers to economic activities by cooperatives, mutuals, associations (foundations and NPO etc.). It corresponds to the economy of non-profit sector in the US.

<sup>14</sup> The research project was conducted under the theme of "The Emergence of Social Enterprises in Europe." The project led to establish a research network called EMES Network.

society, which is inherited in human-being, as a way of voluntarism, and builds dynamic and equal footing relationships with private enterprise and government. Standards for defining social enterprise is proposed as in Table 1, and nine elements are discussed.

**Table 1. Definition of Social Enterprise**

aspect	indicator	Outline
Economic aspect	Continuous activity to produce and provide goods and services	Directly and continuously involved in producing and providing goods and services, rather than conducting advocacy activities or financial distribution activities.
	High self-reliance	Not controlled by government or private enterprise even though financially depends on them.
	High economic risk	Takes all or part of risks, rather than avoids all economic risks.
	Minimum paid labor	Builds an incentive system and utilizes volunteers.
Social aspect	Clear objective of commitment to community	Objective of the commitment to local society (including environment) is clearly set.
	Organization built by citizens group	Built mainly by local constituencies in order to respond to local society's needs
	Decision making system not based on owned capital	Incorporates decision making system of one vote for one person in principle rather than one vote for one capital stock.
	Participation of people who are affected.	Has open organization style. This induces chain of entrepreneurship.
	Limitation of profit distribution	Does not totally deny profit distribution to stakeholders. Some portions of profit can be distributed to them.

(Borzaga, 2003)

There are a lot of kinds of social enterprises: from very small to very large, from the one of which staff is mostly volunteer to the one with little volunteer, from the one that heavily depends on subsidies to the one nearly independent, from the one that majors in informal economic activities to the one that is not, from the one provides single function to the one that provides multiple functions, from radical one to innovative one etc. There are also various origins of social enterprise: cooperatives, job creation, community development, welfare activities (Pearce, 2003). Environmental movement is another type of origin. Social enterprise is spreading into environmental and cultural services, which is very concerned by local community in most European countries (Borzaga, 2003).

### **(3) Future Environmental Business**

Previous parts explained that the mainstream for achieving sustainable development, where environment and economy co-exists, is in local society, and that the third sector economy, with the emergency of social enterprise, has come under the spotlight. This new context is expected to promote economic development that has a wide scope of environment, community, and culture, which cannot be valued in monetary term.

Then, what does the local society that achieves sustainable development look like? What kinds of business activities should citizens conduct? The basic approach for local society would be to increase its independency or self-reliance. For that, local society would need to utilize local resources and improve them through business activities. The new economics movements proposed a concept of five capitals: natural capital, social capital, human capital, manufactured capital and financial capital. In traditional economics, capital meant financial capital. In new economics, such values as natural eco-system, human relationship, material and energy, human capacity development are incorporated. Capitals behave themselves trying to increase, and balanced capital increases are needed. This concept is gradually implemented in such policies as UK or Japanese supporting policy for developing countries. The importance of social capital has been widely recognized, and investment to natural capital can be seen.

Movements for sustainable local society are not limited to the new economics movement, and such local development movements as local industry promotion or urban infrastructure improvement can be seen. Various activities to build models of sustainable local society are conducted under the names of sustainable community, eco-village, one planet living<sup>15</sup>, and carbohydrate economy<sup>16</sup>.

It is difficult to have a clear definition on environmental business by social enterprise. One business might improve one or all of the five capitals, vary from providing one function to multiple functions, and be related each other in the open structure of social enterprise. However, it can be found that social enterprise has huge needs in the environmental filed by just thinking of nature regeneration and sustainable use of material and energy. Natural ecosystem has been severely damaged by modernization, and there are lots of nature to be restored. Regarding material and energy, fossil fuel based providing system needs to be replaced with renewable one. Social enterprise has a big role in that, because local society is expected to manage renewable resources. This is necessary in terms of raising material and energy efficiency by building a sound-material cycle society at local level, and contributes to improve local independency and self-reliance. Exchanging material and energy in a geographically small unit would reduce at least the amount of consumption for transportation.

Technologies for utilizing local nature has been developing. They are such energy

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<sup>15</sup> One planet living is a project by WWF and BioRegional.

<sup>16</sup> Carbohydrate Economy is propose by the Institute for Local Self-Reliance.

transformation technologies as wind power, photovoltaic, biomass, and such network control technologies as micro (mini) grid and material flow control. Technology is a double-edged sword, and needs to be assessed not just from economic viewpoints but also from society's viewpoint. These technological development seems to serve as a tail wind for improving local society's independence and self-reliance.

In developed countries, people are seeking not for material wealth but for spiritual richness, and lifestyle called LOHAS<sup>17</sup> is getting attentions. In matured economy, producing goods is getting difficult to be a business, and business models changes towards the ones that providing services by maintaining goods is prevailing. In modernization process, technology has developed product needs. In the age of entering post modern process, it is expected to understand precise needs of society, make innovation, and provide high quality of services. In this trend of service economy, community has become an important place for business, because community is a place for elaborate information exchange.

Social enterprise is beginning to occupy supreme position, in the context of government outsourcing, lifestyle change, maturation of economy, diffusion of Corporate Social Responsibility, and global environmental constraints. However, various institutions developed during modernization ages can be obstacles for social enterprise. Policy measures to support social enterprise is needed in order for it to respond to huge social needs on the environment.

### **3. Backgrounds of Community-based Environmental Business and Relevant Policies in Japan**

#### **(1) Backgrounds of Community-based Environmental Business in Japan**

Japanese local society has historically been an agricultural society. With the development of industrialization, the population of agricultural village, which had a strong community consciousness, has moved to urban area. Urban area strengthens its characteristic of market society, and separation of production and consumption has driven to weaken community consciousness. During an economic growth period, local society had a vitality, although there was a problem of environmental pollution. However, as various products prevail and economy gets matured, manufacturing industry has declined. Along with this, community-based commercial activities have also declined, and both urban and rural areas have lost their vitality. Now, in the age of information society, regeneration of local society through post modern industrialism is a nation wide agenda in Japan.

Despite the decline of local society, there remain a sense of community, which was cultivated in agricultural society, in certain areas in Japan. Before market economy dominates the society, Japanese traditional society had systems called "Yui", "Kou", and "Za" (Kaneko, 1998). "Yui" was a mutual support system that a same number of labor and work day was provided when a family needed intensive labor in the community. Mutual support for such works as rice planting and

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<sup>17</sup> Lifestyle of Health and Sustainability

tea picking helped not only for accomplishing the works but also for creating common knowledge of community. "Kou" has two meanings: one is a social business project that is implemented collaborately, and the other is a safety-net financial system developed by and implemented for the community. Both contributed to community conservation and relief of the socially vulnerable. "Za" means seat. When a community organizes a festival, role sharing is decided: who carry portable shrine, or what should those who can't carry it do. Building a rule of role sharing has brought competition in the community and contributed to vitalizing the community (Kaneko, 2002). In some Japanese rural areas, these traditional culture remain, and prototype of social economy can be seen.

During manufacturing age, the community economy in rural areas has practiced indigenous industry and "one village one product movement." Indigenous industry is an industry that utilizes the characteristics of local society, and a measure to obtain "foreign money" for the local society. One village one product movement is a local development movement that started in 1979. Its object is to reevaluate the area we live before lamenting the area's adverse conditions, make something proud of the area and vitalize the area. The movement discovers specialty products that local residents can be proud of, and makes it a competitive product for the nation and the world. It is implemented with the commitment and engagement of national and local governments. The one village one product movement was disseminated from Yufuin town (population: 11,400) and Oyama town (population: 3,900) of Oita prefecture to all Japan, and to Korea, China, and especially Asia-Pacific countries like Malaysia, the Philippines, Thailand and Cambodia. Recently, it is going to spread into Asian and African nations with an oversea economic assistance program of the Ministry of Economy, Trade and Industry (METI). The activities are led by national/local governments.

Citizens-centered movement has rapidly expanded with a turning point of the Great-Hanshin Earthquake that occurred in 1995. The earthquake was a magnitude of 7.2, caused huge urban casualties of the death toll of about 6,400 and injured people of about 40,000 in Kobe area. Just after the disaster occurred, volunteers from the Hyogo prefecture and also from Japan and overseas rushed to the scene, and participated in such works as carrying in/out of relief supplies, management of emergency evacuation area, confirmation of the safety of relatives, preparation of hot meals, water drawing, medical and nursing care, caring for the elderly etc. The number of volunteers has risen average 20,000 persons per day during the first month after the earthquake, and 1.38 million of total for one year.<sup>18</sup> Later, a research found that in community conscious areas, rescue work was able to be conducted immediately after the quake by the community people, but in the areas community is not developed, rescue work was delayed. Through this experience, community building is promoted from a viewpoint of initial rescue system just after the earthquake.

The importance of citizens volunteer was recognized nation-wide, and in 1998, a law for NPO was established. The purpose of the law is to give legal status through simple administrative

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<sup>18</sup> Source: Homepage of The Hanshin Earthquake 10th Anniversary Commemorative Project

procedures in order to promote voluntary social activities by citizens. Obtaining the legal status requires organizations to have a major objective among the 17 designated activity fields<sup>19</sup>, to contribute to the benefits of unspecified majority, and not to target at making profits etc. The number of authorized NPOs has gradually increased from the beginning and reached about 25,000 in Japan during seven years.

With the invent of legal system of incorporated NPO, community-based business has been activated. Japanese "community business" has a similar concept to the ones of the UK community business and the US micro business or community venture (Hosouchi, 1999). There is no standard definition of community business, but a citizens-centered local business. Table 2 gives an easy to understand definition that consists of some elements.

**Table 2. Elements of Community Business**

Element	Explanation
Business	Self-earned income is a major source of income and expected to continue.
Locality	Business activities are targeted at certain local areas.
Reform	Business objective is to solve local society's agenda through reform.
Citizens	Citizens sector has initiatives in capital and management for developing business.
Local contribution	Clear contribution to solve local society's agenda.

(Kobe Institute of Urban Research, 2002)

Community business is a citizens initiative and started to develop with the supports of governments in the context of administrative reform. The Cabinet Office, which holds jurisdiction over NPO law, conducted a research on social capital and examined its concept and quantification methods. METI set up an NPO committee in the Industrial Structure Council in 2001, and examined economic effects of NPO and future potential of social market. The Kanto Bureau of Economy, Trade and Industry, which is a branch of METI, compiled manuals for incubating community business and support measures of intermediary organizations. Regarding prefectural governments, the Hyogo prefectural government, which experienced the Great Hanshin-Awaji Earthquake, started supporting measures for community business. In 1998, the Lifestyle and Welfare Council of the government reported towards 21st century 1) administrative reform, 2) building of full-fledged voluntary sector, and 3) realization of self-reliant civil society. In response to the report, the government started such support programs as subsidy to start-up organizations in 1999, and after that,

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<sup>19</sup> 17 categories of activity: 1) Activities to promote health, medical care or welfare, 2) Activities to promote societal education, 3) Activities to promote town development, 4) Activities to promote culture, arts or sports, 5) Activities to promote environmental conservation, 6) Disaster relief activities, 7) Activities to ensure community safety, 8) Activities to promote human rights or peace, 9) International cooperation activities, 10) Activities to promote the creation of gender equal society, 11) Activities to promote sound nurturing of youth, 12) Activities to promote information society, 13) Activities to promote science and technology, 14) Activities to promote economic vitality, 15) Activities to promote professional capacity building or employment opportunities, 16) Activities to protect consumers rights, 17) Liaising, advising or support activities related to the operation or activities of organizations performing any activity listed above.

it commissioned management of the support center facility to NPOs so that citizens can support each other rather than government supports them. This practice of local government was unique, and affected many local governments that follows the suit (Kato, 2004).

There is also a context that private enterprise as well as government supports NPO, and it is growing. Traditionally, there were practices that private enterprise set up an NPO and conducts social action programs. But recently, there have been more practices that private enterprise formulates a partnership with an NPO that is not an affiliate of the enterprise and implements projects on an equal footing basis. The background of this is that private enterprises have incorporated Environmental Management System and the idea of Corporate Social Responsibility, published environmental/sustainability report and can appeal to the public that the enterprise is contributing to the environment and society. Beside that, the context is strengthened by some successful practices like the one that Matsushita Electric company and a global NGO of Greenpeace formulated a partnership, developed non-fluorocarbon refrigerator, which became a strategic product of Matsushita. Private enterprises that have manufactured incinerator or sewage treatment facility are trying to adapt to the age of non-manufacturing economy, and build a business model coupled with local society (IGES, 2006) .

In order for citizens centered business to develop, formulation of relationships with government and private enterprise is an important point. However, more important thing is formulation of mutual supports among the entities of the third sector. These mechanisms are gradually developing with the invent of such organization as: intermediary organization that supports NPOs in developing a new business, community bank or community fund that collects money from citizens and finances community business, and local money that targets at local circulation.

Citizens environmental movement is changing its nature from anti-development type to environment creation type. It is believed that social entrepreneur who creates "community-based environmental business" gets born among highly environmentally conscious citizens. In that sense, environmental/sustainability education is important. With the enforcement of environmental education law and various media, nation's environmental consciousness is gradually improving.

## **(2) Relevant policies for Community-based Environmental Business in Japan**

Relevant policies for community-based environmental business ranges wide areas. Regarding policy of public sector, there are local development policies, industrial promotion and employment policies, energy policies, environmental policies and also policies for decentralization of power from central government to local governments and outsourcing policies of business that public sector has conducted. Regarding policy of private sector, dissemination of CSR and departure of SME from dependency on big enterprises are among the most relevant. Besides the supporting policies, basic policies that deals with institutions of economic entities in social economy including cooperatives, foundations, NPO and intermediate corporation etc. is very important.

Japanese non-profit organization institutions have not experienced a drastic revision for

about 100 years. It is said that the institutional system cannot deal with recent rising practices of non-profits and is having systematic fatigues (Study group on new non-profit institutes, 2003). New legal status has been created as NPO status in 1998, intermediate status in 2002, and LLP (limited liability partnership) in 2005. However, present NPO law has a lot of limitation, since it assumes donation and does not have rule on investment. For example, when an NPO tries to collect investment money in order to construct citizens wind power, its legal status cannot deal with the project and it needs to obtain another legal status. This administrative works are big barriers for an NPO that does not have many staff.

While the UK community business emerged as a measure of employment, Japanese community business have developed mainly as a measure of town development. Japanese local development institutional system has been revised in about ten years after the comprehensive national development plan was compiled in 1962. The fifth comprehensive national development plan, which was compiled in 1998, did not use the term of plan because it gives an impression of top-down, and named itself as "Grand Design for the 21st Century -Promotion of Regional Independence and Creation of Beautiful National Land -."<sup>20</sup> In 2002, the Headquarters for the Promotion of Special Zones for Structural Reform was established inside the Cabinet, for the purpose of vitalizing national economy and local society by respecting local society's voluntary efforts as much as possible through regulatory reform. The scheme does not include financial support programs, but just gives approval on the local rule that is different from nation-wide uniform regulation to a certain area, based on the proposal from local citizens, legal organizations or local governments. For example, in a certain area who obtained the approval, it became possible for NPO to give professional transportation service on a compensated voluntary basis. Regarding the fields of environment and energy, there are cases that recycled use of byproducts between companies became easy by relaxing the definition of wastes of the recycling materials, and that renewable energy business became feasible by giving special exemption on electric power regulations. Further in 2003, the Headquarters for the Regional Revitalization was established inside the Cabinet, and policy measures including financial assistance towards local originality and ingenuity have been implemented. Traditionally, local governments applied for the programs that national government developed. However, the regional revitalization has a scheme that such local entities as individuals, NPOs, companies, community-based organizations, local governments can make a proposal to the national government, in order to highlight the initiatives of local society. Thanks to this scheme, the area that obtains the supports is spreading in the fields of regeneration of forest, conservation of freshwater, introduction of local money etc.

Regarding the town development in rural areas, "Biomass Town Initiative" is being promoted in order to support local production and local consumption, citizens centered town development, exchanges between urban and rural area for coexistence, and to build a system that

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<sup>20</sup> The nation-wide development plan system was abandoned in 2005. Instead of that, regional plans for the blocks of the country is going to be compiled.

utilizes local biomass by deepening the relationships among the concerned people in the community. On the other hand, regarding urban commercial area, there are national and prefectural policy measures that subsidize Town Management Organization (TMO). However, TMO is driven by commerce and industry associations. Its activities are closed to such commercial promotion activities as refurbishing arcade or holding a festival, and has not reached to such activities as building local citizens network, or improvement of local environment and welfare.

For manufacturing industry-based town development, a program called "Eco-Town" is being disseminated. The objective of this program is to build a sound material cycle society by promoting environmental industry utilizing the industrial accumulation of the area, and reducing and recycling wastes based on the uniqueness of the area. It is co-administrated by METI and Ministry of the Environment (MOE), and supports that local government implements advanced environmental sound town development, collaborating local residents and local industries. The program started in 1997, and 26 areas were approved as eco-town as of March 2006. The characteristics of this program are that the area is not limited to eco-industrial park, and includes both urban and rural areas, and that the program scope incorporates citizens participation and utilization of local natural capitals. However, most of the practices remain just building recycling facilities. The program is expected to collaborate with community business etc. and promote environmental town development in which various economic entities can participate.

While the outline of general policy measures for promoting community business was stated before, policy measures especially targeting at environmental fields of community business are being implemented. METI has been implementing "Environmental Community Business Program" since 2003. The objective of the program is to reduce environmental loads continuously and efficiently by identifying and supporting practices of "Environmental Community Business" that contributes to environmentally sound town development through collaboration of local business, NPO and citizens etc. The program gives financial support to the practices that contribute to the solution of local environmental problems, activate local economy, and could be the models for other local areas.<sup>21</sup> On the other hand, MOE is implementing "Eco-community Program" since 2003. The program calls for practices that is conducted through collaboration among NGO, NPO, business, and local government, that contributes to building a sound material cycle society where reduce, reuse, recycle, and green purchasing are conducted, and that has originality and ingenuity, which could be referenced for other areas. After selecting good practices, it gives finances to conduct experimental activities.<sup>22</sup>

Programs to support local practices can be found in energy conservation and new energy promotion as well. NEDO<sup>23</sup> is supporting not only industrial organization but also local government

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<sup>21</sup> The numbers of applicants (approved areas) of the Environmental Community Business Program for each fiscal year are: FY2003: 220 (9), FY2004: 116 (5), FY2005: 93 (13), FY2006: 69 (14).

<sup>22</sup> The number of applicants (approved areas) of the Eco-community Program for each fiscal year are: FY2003: 239 (5), FY2004: 65 (5), FY2005: 36 (8), FY2006: 81 (7).

<sup>23</sup> NEDO (New Energy Development Organization) is an affiliate of METI, and coordinates in

and NPO etc. It supports local government in compiling its "Energy Conservation Vision" and "New Energy Vision", and subsidies to facilities and activities at local society conducted by such private organization as NPO. MOE is implementing "Model Town Program for a Virtuous Circle for Environment and Economy" since 2004, and giving financial supports for building CO<sub>2</sub> reduction facility and conducting educational activities etc. through local government to those who work on town development activities with local originality through a wide range of entities' participation. Other programs include "Model Program for Promoting Local Collaborative Measures Against Greenhouse Gas Emission", which started in 2004 and supports civil organizations in taking measures against CO<sub>2</sub> emission, and "Model Program for Entities Collaboration", which started in 2006 and supports civil organization that are conducting activities on dissemination and enlightenment for energy conservation in local society.

Citizens-centered business can be created in the fields of nature conservation and nature regeneration as well. Local citizens' care for local nature is necessary for eco-tourism and conservation of nearby mountainous areas. Regarding nature conservation, the establishment of the nature regeneration promotion law has provided a framework that those who would like to practice nature regeneration activities including NPO, civil organization, local government, national government, formulate a conference to jointly conduct a business. The law was established by referencing to the successful nature regeneration practices of an NPO. However, the program has an agenda that initiatives of NPO could be more exercised and involvement of the national government be reduced.

The programs of the national government has been introduced so far, and there are programs of local governments as well. Regarding the relationships between national government, local government and NPO, there remain an agenda to build an equal footing relationships. There is a disparity between national and local governments, and NPOs have not received enough trust from public, because there are those who abuse the system and NPOs do not have much experiences. Regarding financial support systems, they have an agenda that the number of support practices and the amount of money is small, and that supporting period is short. Single program is not enough for a practice to develop, and in some local societies, local government, companies and civil society organizations are deepening the relationships, and trying to promote their own environmental business by integrating the support programs. Next section will introduce typical practices in Japan.

#### **4. Cases of Community-based Environmental Business in Japan**

The number of cases that local society formulates a partnership and conducts environmental business is steadily growing in Japan. There is little case that a single organization fulfills all items of the definition of social enterprise shown in Table 1, but there are many that

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developing and disseminating industrial technology and energy/environment technology.

fulfills the definition as a society. So, this section investigates the practices taking up a unit of local society. Local society has its own natural conditions, history and culture, and there are various ways to categorize local societies. The basic way would be to categorize them into urban and rural areas. This section takes up a way of categorizing local society into urban, rural and small local city, which is in between urban and rural, and investigates typical cases of each. The outline of each cases are shown in Table 3. Since items that consists of the definition of social enterprise extend numerously, the cases are examined comprehensively from the following three viewpoints.

A. Social capital of local society

Social capital serves as an infrastructure of reciprocal economy. A virtuous cycle between accumulation of social capital and environmental business can be formulated.

B. Environmental business and partnership structure

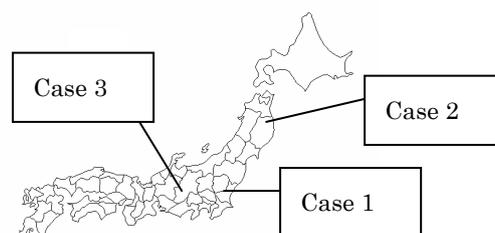
Advancing partnership activities, the cases get their activities on a business basis utilizing volunteers and inducing chain reaction of business.

C. Utilization of support programs and agenda

Various support programs of national/local governments are well implemented. However, there remain agendas.

**Table 3. The Outline of the Three Cases**

Case	Local society category	Area	Outline
1	Urban	Kasumigaura Lake Watershed, Ibaraki prefecture	An NPO with business models ideas has emerged from citizens group concerned with water pollution of the lake Kasumigaura. It coordinates elementary schools and various organizations in the watershed, and develops "Citizens Public Works Project" in order to please the lake, by receiving budget from national government etc.
2	Rural	Kuzumaki town, Iwate prefecture	Utilizing local forestry and cattle breeding, the town government is taking initiatives of wind power, photo voltaic power, biomass power generation projects etc. The whole town became "An Open Museum of Clean Energy", which is attracting many tourists. Regional network initiative, which surpasses the boundary of the town, is also proceeding.
3	Small local city	Iida city, Nagano prefecture	With the initiative of the city government, an organization was established by local companies etc. and conducts "Local Society-wide Environmental Management" activities. A company established by a local NPO, collaborating in and out of the area, conducts business on energy conservation and new energy business targeting at the local society.



**(1) The Lake Kasumigaura Watershed, Ibaraki prefecture (Citizens Public Works)**

A. Social capital of local society

The lake Kasumigaura had been an infrastructure of local society's lifestyle and industry for a long time. There were a lot of places for swimming, but with the urbanization, there is no place for that now. The amount of fish catches of hypomesus olidus, salangidae, and shrimp etc. was as high as 17,487 ton in 1978, but decreased to 2,416 ton in 2000.

In this circumstances, a citizens group was established and started activities to purify the lake. However, the water quality did not improve at all, and the group's activities were limited to dissemination and enlightenment of clean water and to criticize government. There appeared people who feel the limitation of traditional civil organization activities. In 1993, with a change of generations of the group, a project was proposed to symbolize Asaza<sup>24</sup>, and the activity changed its course towards "Citizens Public Works Project" that involves citizens in the watershed and practices activities by themselves to purify the lake. After that, the group started involving environmental education activities at elementary schools in 1995, and received trusts from the local societies of watershed area. In 1998, this activity was introduced in the national government's white paper on the environment. Receiving a legal status of NPO in 1999 and commissioned works of nature regeneration from the national government in 2000, the Asaza project<sup>25</sup> is getting accelerated participation from local society for the activities to "please the lake".

B. Environmental business and partnership structure

The Asaza fund, which has a legal status of an NPO, has made efforts for building partnerships with elementary schools, municipal governments, fisheries cooperatives, agriculture cooperatives etc. Their network surpasses the local society: they obtain cooperation on professional knowledge from professors in Tokyo, and financial supports for their office expenses from a private enterprise as an activity of CSR. They also make concrete project proposals for purification of the lake Kasumigaura to the national government, and implement the projects, which used to be enforced directly by the national government, by supporting and coordinating local society. Major activities of the "Citizens Public Works Project", which connects multiple effects and involves various entities, are as follows:

- Environmental education activity (environmental education, school bio-top, nature regeneration, monitoring)

This activity is the firstly started activity and functions as an infrastructure of the Asaza project. The lake has become a field of environmental education for the elementary schools etc. in the watershed area. At the schools, a same specification of bio-top is built as an

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<sup>24</sup> A kind of perennial water plant

<sup>25</sup> Asaza project is basically coordinated by an NPO called the Asaza fund.

educational tool, which is used for cultivating aquatic plant to be used for the regeneration of the lake, and prevents gene disruption by bringing in non-native plants. The daily observation data by the children is stored in a database by the Asaza fund, and utilized for monitoring.

- Regeneration activity with fascine<sup>26</sup> (nature regeneration, forestry, fascine)  
This activity was started as a regeneration project commissioned from the national government. Collaborating with forest cooperatives, this activity collects fascines from forest in the watershed and uses them as wave absorbing blocks for purification of the lake. A win-win cycle model is formulated between nature regeneration and forestry promotion.
- Fallow field activity by company's ownership (company owned rice paddy, manufacturing of Japanese sake, company's purchase for gifts)  
A community-based company rents out idle rice paddy field, cultivates brewer's rice, lets local sake companies produce sake, buys out the sake and utilizes it to gifts for appealing the company's CSR activities. Conservation of agricultural land, local industry promotion, CSR of company are well connected and formulating a win-win business model.
- Activity of getting rid of foreign origin fish and composting (removal of foreign origin fish, composting, organic agriculture)  
This activity was started recently. It makes compost of foreign origin fish removed from the lake by a measure of fisheries damage control, and uses it for organic agriculture. A measure against foreign origin species, which has become a big issue of bio-diversity, and organic agriculture is connected on a business basis.

The above business models are not a problem solving type, but a value creation type. They are not self-contained, but kept intentionally open to expand the circulation of the economy.

### C. Utilization of support programs and agenda

The Asaza fund proposes new business models to national and local governments, and coordinates the project on an equal footing basis rather than takes programs prepared by the governments. Although the Asaza fund, utilizing its NPO status, are expanding their business over the jurisdiction of public administration, it is getting faced with the limitation of the NPO law, because the law was established with a plan that the organization conducts their activities based on donation in mind. In order for an NPO to collect investment money and extend businesses, agendas on tax system, finance and investment conditions, and performance evaluation etc. need to be solved. The Asaza fund is planning to extend their business towards upstream area to cover the whole

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<sup>26</sup> Small branch of tree

watershed geographically, and examining the utilization of remote sensing (space development business, artificial satellite) and financial business. The framework of the NPO law is expected to be expanded.

## **(2) Kuzumaki-machi, Iwate prefecture (Open Museum of Clean Energy)**

### A. Social capital of local society

Kuzumaki town is located in a mountainous district of the Kitakami Mountains, northeastern part of the Iwate prefecture. It is a depopulated and fast ageing town with the area of 435 km<sup>2</sup> and population about 8,500. The 97% of the area is upland over 400m altitudes, and 86% is covered by forest.

The Kuzumaki town is historically known as a town of forestry and cattle breeding. During the age of rapid economic growth, the town missed the waves of local development. Both the forest and livestock industries had been forced to be downturn until recently. Although a national pilot farm project of large-scale agricultural land development was implemented, it did not bring much effect. Then residents became very conscious about industrial development, and with the initiative of the Kuzumaki town government, public corporation or public-private partnership projects such as the development of "Kuzumaki highland pasture" were established. In recent years, with the supports of the national government etc, the town has introduced many clean energy facilities and become to be called an "Open Museum of Clean Energy".

One of the largest wind power in the world is in operation, and the 78% of the total energy consumption of the town is now provided by new energy. The town organizes such events as "The Wind Summit" where mayors who are positive about wind power get together, and citizens conscious ness became elevated. The town was awarded a grand prix of the 10th New Energy Award by NEDO.

### B. Environmental business and partnership structure

Since 1950s there had been a background activity of the environmental business in Kuzumaki town: former president of the Kuzumaki Forestry Company had already utilized chips and barks produced from the lumber sawing to source of heat etc. The company is now a typical Japanese manufacture of wood pellet, and establishes an NPO called the Galaxy Environmental Network to build a regional economic zone starting from Iwate. The NPO promotes linking the activities of forest, river and the sea: activities of manure and wood biomass methane stock system in mountainous area of Kuzumaki-town, energy crop and ethanol production in paddy field zone of Tanzawa-town, and regeneration of the sea in coastal area of Ohfunato. The major natural energy and environmental business are as follows:

#### ➤ Wind Power Generation

Wind power generation business is conducted in two sites: one is by the public private

partnership (Eco-Power Kuzumaki) of Kuzumaki town hall and three private enterprises and the other is by a private enterprise (Green Power Kuzumaki). The Eco-Power Kuzumaki constructed three 400 kW generators in 1998, and the Green Power Kuzumaki build twelve 1,750 kW generators in 2001. The generated power is used by the Kuzumaki town and surplus power is sold to a power company.

➤ Photo Voltaic Power Generation

Kuzumaki town hall is the enterprise body. In 1999, the town hall built 420 photovoltaic panels of 50kW at the Kuzumaki junior high school. Then 20kW facility was set at a welfare facility called At Home Kuzumaki. The surplus power is sold to a power company.

➤ Manure-based Biogas System

Kuzumaki Livestock Development Public Corporation built a biogas system in 2003, which produces methane gas by fermenting livestock manure. Transforming the gas into heat and electricity, the corporation uses them at the guest ranch where the system is built. Food scraps as well as manure from the ranch is used for energy production.

➤ Wood Biogas System

The business body is the same corporation above. It manufactures wood pellet from thinned wood, bark, mill ends that are produced at wood mills. Kuzumaki town hall buys the pellet for fuel of heating stove at such public facilities as school and welfare facility. The corporation is at the ranch and is developing a wood biomass gasification facility that burns wood chips in gasification furnace and generates electricity.

➤ Other Environment Related Business

The guest ranch is a center facility of eco-tourism, and manufactures and sells milk and wine. It provides tourists with various services including accommodations.

As observed above, Kuzumaki town hall plays a central role in developing business on natural energy and environment. According to an interview, income and expenditure is almost balanced at present.

### C. Utilization of support programs and agenda

The town compiled its "New Energy Vision" in 1998 by getting support of NEDO. After untouched and rich local resources were reexamined, natural energy production by wind power, photovoltaic, biomass has expanded rapidly. The vision declares "New Energy Town Kuzumaki" incorporating the three benefits: "Benefit from Sky" which brings wind power or sunlight, "Benefit from Land" which produces manure, forest and hydro, and "Benefit from People" which have

cultivated climate and culture of the town. In building such facilities as wind power and wood biomass gasification, support programs of NEDO were used, and in setting photovoltaic panels at junior high school, a support program of MOE, called Eco-school Project, was used.

The town carries a target of energy self-reliance advancing renewables use from present 78% to 100% in future by strongly promoting community-based biomass utilization. The town is trying to find ways of chain reaction that increases the number of environmental business created individually, connects them and makes an area-wide activity, and disseminates the business models to nearby areas.

Although the progress has smoothly been made so far, there are some agenda left. One of the agenda is that wind power and photovoltaic does not increase employment so much once the mechanical facilities are constructed and started to operate. In order to cope with this issue, biomass energy needs to take precedence, because it can create employment for manufacturing, managing and transporting biomass in collaboration with the forestry cooperatives. Another agenda is on power grid system. The guest ranch had to construct its own grid for the power transmission in the ranch. If it was possible to utilize the grid system of the regional power company, it would have saved significant costs. Power transmission system seems to have an institutional agenda.

### **(3) Iida city, Nagano prefecture (Community-wide Environmental Management)**

#### A. Social capital of local society

With its center part running the Tenryu river, Iida city is a nature rich area surrounded by more than 2,000 m altitude of the South Alps on its eastern side and the Chuo Alps on its western side. The city (population: about 108,000; area: about 659 km<sup>2</sup>) developed as a strategic point of transportation from a long time ago, and local industry and agriculture were advanced. In Muromachi-period, the Iida castle was built, and at present historical festival that features feudal lord's procession is held. Recently, the city annually organizes the "Iida Puppet Festa", which is the largest puppet show in Japan, and attracts many tourists from home and abroad. It is a town filled with historical culture.

The origin of the name Iida is said to be "Paddy Field of Yui": paddy field of collaborative works. In 1947, it lost about 80% area of its cityscape, which was said to be a miniature of Kyoto, by a big fire. After that, the people have constructed a disaster prevention model city with the initiative of apple tree planting movement by the local junior high school students.

At now, the city faces with such an agenda as population decrease and budgetary reform, and is expected to tackle the decrease of local vitality. In this situation, the city hall carries a target of economic self-reliance<sup>27</sup>, and is trying to increase revenue by gaining "foreign" money and decrease expenditure to the external economy by developing goods circulation mechanisms through

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<sup>27</sup> The Iida city hall defines the economic self-reliance as "revenue from the industries in the area divided by the revenue necessary for the area." The indexes were 58% in 1991, and 46% in 2001. The city carries a target of 70% by 2014.

strengthening local production and local consumption.

#### B. Environmental business and partnership structure

The local economy, which consists mostly of SMEs, have faced to take responses to the requirements of Environmental Management System (EMS). However, it is not easy for SME to receive a certificate of EMS of ISO14001. Then, the atmosphere of creating mutual learning system was born, and some companies got together and established a network organization called "The Study Group on Society-Wide Environmental ISO." The study group, of which the city government is also a member, serves as an infrastructure for local environmental activities. The city government utilizes support programs of the national government, works collaboratively with NPO and promotes environmental business as follows:

➤ Environmental Management System certification business

The study group conducts activities for sharing and supporting technologies and knowledge for obtaining ISO14001 certification. The core activity is "South Shinshu Iimusu 21", which is a mutual learning activity to design and help introduce simplified EMS to SMEs in the local area so that the SMEs can take the first step towards full-fledged ISO14001 certification. The study group consists of about 30 organizations, among which initiatives are taken by a precision instrument manufacture and the municipal government. The precision instrument manufacture's birth place is Iida and the headquarters is located in the city. The company has obtained ISO14001 certificate at an early date, and plays a key role in giving guidance on technical issues. The municipal government also obtained ISO14001 certificate, but changed it with self-declaration of it<sup>28</sup> in 2003. Iida is the first case of the self-declaration of ISO14001 in Japanese local governments, some of which are following the suit. The self-declaration system accompanies environmental auditing of the city hall by the members of the study group and general citizens. The study group organizes lecture meetings inviting nationally renowned persons, and is enthusiastically working on dissemination activities such as issuing a newsletter every week. As the "society-wide" shows, the Study Group on Society-wide Environmental ISO makes an infrastructure for citizens movement for the environment of the society.

➤ Photovoltaic Power Generation and Shopping District ESCO<sup>29</sup> business

As a business body for public interest business of partnership between private enterprise and government, the "Ohisama shinpo energy Co. Ltd." was established by a local citizens organization of NPO<sup>30</sup>. The company conducts photovoltaic power generation and shopping

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<sup>28</sup> ISO14001 does not necessarily require third party certification. Self-declaration is allowed.

<sup>29</sup> ESCO is an abbreviation of Energy Service Company.

<sup>30</sup> The name of the NPO is "Minami Shinshu Ohisama Shinpo." It coordinates works for production of

district ESCO businesses by obtaining support from the national government and asking nation-wide citizens for their investment. The photovoltaic power generation business earns money by providing electricity to 38 public facilities including child-care centers by setting photovoltaic panels with a total capacity of 208kW, and also by selling green value of the electricity to the issuers of green power certificates. The shopping district ESCO business designs, proposes and implements energy conservation measures for the shops in the city, and earns a part of saved money by the energy conservation measures. The company receives supports in the knowledge of energy conservation technologies from external professionals, and pays consideration for energy conservation instruments to be developed and constructed by local companies.

### C. Utilization of support programs and agenda

Iida city hall well incorporates such national programs as Eco-town program, Model Town Program for a Virtuous Circle for Environment and Economy, Eco-community program, Eco-tourism program, and Special Zones for Structural Reform program into their originally planned local projects. The Ohisama shinpo energy Co. Ltd. is a local society oriented company developed through citizens movement, but as far as procurement of management resources, it receives professional knowledge from NPO etc. outside of the area and financial supports, investment that does not seek profit first, from citizens and companies nationwide.

Since the government's support programs is a short time financial assistance, the business needs to improve financial performance so that it can continue after the termination of the support programs. Improvement of consumer awareness is essential as well as originality and ingenuity of business body. It is taking time to formulate a new local market.

Institutional system of legal body for citizens business needs to be developed further. As in the case, an NPO had to establish a limited liability company for business implementation body. It is quite a burden for same staff to work for two organizations. Besides that, they had to establish a framework of anonymous association contract so that they can receive investment contributions from citizens etc. Having an anonymous association contract with investors for each project costs a lot of administrative burden.

## **5. Conclusions**

This last section outlines the significance and outlook of "community-based environmental business" for building a sustainable society and findings of the researches on Japan, and then examines some agenda for promoting this kind of environmental business.

### **(1) Significance and outlook of community-based environmental business**

Community-based environmental business would become a major economic activity in sustainable society. In other words, if this kind of activity cannot become a major one, the society would not be a sustainable one. Mass production- Mass consumption- Mass waste system was caused by modern industrialism. It is not necessary and may not possible to totally deny modern industrialism, but in order to reach a sustainable society, a new trend that is totally different is needed. The third sector, which is different from government and private enterprise, is expected to play a role in creating a key new trend.

A movement that tries to fundamentally revise the economy from the viewpoint of environmental conservation has been developed. It is the third sector and local community that the movement has emphasized. When we seek quality of life instead of economic growth, we realize that relations with society and nature in addition to materialistic wealth occupies an important place. The growth of the third sector is predicted not only by environmentalists but also by renowned futurists<sup>31</sup>.

Previously the third sector activities were not so disseminated although the importance of them are recognized. However, a new development is coming up recently. That is the emergence of social enterprise. Social enterprise has entrepreneurships, and conducts business out of citizens movements utilizing networks in and out of the area. Standing at the citizens viewpoints, social enterprise can incorporate quality of environment and society, which cannot be valued in monetary terms, into its business. Regarding the backgrounds that enabled the emergence of social enterprise, there are outsourcing of public business in the context of administrative reform, efforts of private companies to have linkage with the third sector in the context of CSR management, and development of the Internet, which gave a small NPO the ability to build its own network and to procure management resources including professional knowledge. The followings are the summary of significance and outlook of the community-based environmental business.

- Fundamentally different from modern industrialism that has promoted mass production.
- Corresponds with the movement that has critically evaluated economy from the viewpoints of environmental conservation.
- Expected to occupy a significant place in the future.
- Becoming feasible for the works that were regarded difficult to do on business basis.

### **(2) Findings of the research on Japan**

Although Japan has experienced transformation of agricultural society to industrial society, sense of community cultivated in the agricultural society remains in some places. Community spirit sometimes comes back from the dead, when the community faces with crisis. It was a regeneration from earthquake disaster that developed NPO movement. As shown in the cases, the crisis were a big fire in urban district (Iida city), water contamination of the lake (Asaza fund), and local management

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<sup>31</sup> Examples include "The Coming of Post Industrial Society (1975)" by Daniel Bell and "Managing the Next Society (2002)" by Peter Drucker.

that had large unnecessary land (Kuzumaki). The infrastructure of community-based environmental business rests on the sense of community. With spirits to improve the local society, people participates in social enterprise as a volunteer or buy environmentally sound product of social enterprise even though it costs a bit higher. When a local society faces a crisis, it will be a chance for them to raise community spirit, and people with entrepreneurship can start citizens movement on a business basis.

Entrepreneurship is essential for procuring various management resources and securing markets for providing services. Utilization of network in and out of the area helps prepare management resources in terms of personnel, information and finance: volunteer staff, professional knowledge, outsourcing from government, commissioned work from private enterprise. The products of social enterprise, which might cost a bit high, are bought by the local community with gaining understanding of environmental effects. Linkages with local cultural activity and welfare activity would bring more non-financial effects. It is possible to secure a business basis by pursuing economy of scope and economy of network instead of economy of scale.

The network of the three cases are open and interactive, which triggers social enterprise in establishing a new social enterprise consecutively. As a supported social enterprise offers supports, economy of network increases. In order to maintain and enlarge open network, an organization like the Asaza fund, which does not serve as a center but as a coordinating body, plays an important role. The findings of the case studies on Japan are as follows:

- Crisis of local society becomes an opportunity.
- Utilization of network in and out of the area brings management resources.
- Open network management creates new business opportunities.

### **(3) Policy agenda for promoting community-based environmental business**

There are various policy agendas even for the good cases selected before to continue their business. Governmental finance is provided based on an equal partner relationship, and receiving the finance does not necessary mean dependence on government. However, the business body is enforced to have a tightrope walking for securing financial resources, as supporting period of the programs is short. Private enterprise provides finances as an activity of CSR, but there are little cases that have a long term collaboration relationship. In this circumstances, in order for social enterprise to have a stable and competitive financial condition, it is expected that commissioned works are provide by various governmental programs and private enterprises. Social enterprise are required to make efforts to secure its finance by digging out local social and environmental needs. It is also expected that social economy develops themselves by creating community fund etc.

Local society has an agenda to develop "local production and local consumption" for a wide variety of products including energy and industrial products in addition to agricultural products. Local target like economic self-reliance (Iida city) and local circular economy tools including local money or locally certificated products are introduced in many parts of Japan. However, social

auditing, which is a system to evaluate social enterprise, has not well developed, and information disclosure of social enterprise needs to be promoted. The conditions for social enterprise to develop a business are as follows:

- Provision of various funding by various government programs and private enterprises
- Improvement of self reliance and independence by introducing local circular economy tools such as local money
- Implementation of social audit system

For community-based environmental business to cope with modern industrialism, there are more agendas: development of intermediate technology that social enterprise can introduce, community's right to control local resources such as biomass, and further development of legal system for non-profit sector<sup>32</sup>. There are many policy agendas to be evolved, but the progress of the third sector will proceed steadily. There are environmental businesses: one is in the context of modern industrialism and the other is in the third sector that is going to be important in the future. As the dispersed renewable energy and material circulation systems utilizing biomass becomes more important in the global environmental constraints, community-based environmental business is expected to be the mainstream of environmental business.

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<sup>32</sup> The Japanese NPO law is made on the assumption that the NPO receives donations and conducts activities. So an NPO cannot accept investment, and when it constructs facilities like a wind power plan, it needs to take such measures as establishing another company. Besides that, tax support system is not developed, because there are good and bad NPOs mixed and hard to discern them.

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