



UiT Norges arktiske universitet

Handelshøgskolen ved Tromsø

## **Hometown Investment Trust funds**

Are Hometown Investment Trust funds a viable method for funding small- to medium-sized enterprises?

Magnus Lyngaas Enge

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## **Preface**

I would like to show my gratitude towards my supervisor, Associate Professor Eirik Eiriksen Heen, for the support he has given me. I appreciate everything you have done to help me during the writing of this master thesis.

I hope you find this master thesis to be interesting.

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## **1. Abstract**

If a firm needs help to finance their business, they can either apply for a bank loan or sell stocks, shares or bonds on the stock market. Whether they will receive a bank loan or investments through selling stocks, shares or bonds depend on the banks and investors assessment of the firm. The firm can be deemed too risky or not profitable enough to receive any investments or bank loans. Naoyuki Yoshino and Sahoko Kaji (2013) describe in their book a fundraising system call Hometown Investment Trust funds. This paper will review the Hometown Investment Trust funds' viability to determine if this is an idea that should be considered implemented in other countries. This paper shows that Hometown Investment Trust funds are viable in the long run if it is appropriately implemented.

## 2. Introduction

Securing finances for small- to medium-sized enterprises (SME) can be a great way to secure local employment and future growth. Such enterprises may struggle to gather capital due to being small and difficulties securing loans. Hometown Investment Trust funds (HIT funds) is a way to fund local businesses to matching businesses with investors who are interested in growing the local economy.

Why should we make it easier for SME to gather capital? In many countries, small firms employ a large part of the labour force. According to NHO, 99% of Norwegian enterprises are SMEs. The SME account for 44 % of the wealth creation and 47% of the employment of the Norwegian workforce (NHO, 2019). In Thailand, 98,5% of the enterprises were SMEs. SMEs accounted for 80,4% of the workforce, and 37% of the wealth creation in Thailand in 2012 (Yoshino, Taghizadeh Hesary, Charoensivakorn, & Niraula, 2015). France is a similar case, where SMEs count for 99,9% of the enterprises, 61,6% of the population is employed in firms, and they stand for 55,2% of the total wealth creation in France (Europea, 2019). This implies that in both terms of production and employment, SMEs are quite crucial to a country's economy. Therefore, it is important to provide SMEs with opportunities to gather capital.

Some challenges for the SMEs are the asymmetric information, Basel Capital Adequacy Requirements (BCAR), and start-up risk. The Norwegian government stated in a report from 2020 that SME struggles to gather capital from investors due to the asymmetric information between SMEs and investors (Strategi, 2020). Yoshino N and Taghizadeh-Hesary F argue that the Asian market has not developed a capital market that could finance risky borrowers and start-up businesses (2014). Many SMEs are denied loans from the bank due to the BCAR. The BCAR is a requirement that forces the banks to set aside an amount equal to or exceeding its non-performing loans (Yoshino & Kaji, 2013). The BCAR made the banks more stringent, which makes it harder for SMEs with low equity to acquire loans. The HIT funds were established to fund some enterprises that were restricted by the BCAR.

SMEs are important and struggle to finance their projects. Hence my research questions are: how does HIT funds work? And, are HIT funds a viable method for funding SMEs?

### **3. Hometown Investment Trust funds**

HIT funds are investment trust funds that know the borrowers face, and which supports the local enterprises in a region (Yoshino & Kaji, 2013). HIT funds support start-ups, established SME and other institutions. HIT funds differ from loans and regular stock by having one singular payback date. This date could be endogenous being set as one year after the first year of revenue. The amount the firms pay is different because they have to pay the investor the same amount the investor invested with an added share-out according to the number of sales after one year.

#### **3.1. Definition**

Hometown Investment Trust funds are funds that raise capital usually from local investors to fund local projects such as, start-up of firms or product expansions for firms. These funds differ from other forms of raising capital for many reasons. The fund is government-run, and the firms must contact the government agency rather than investors. Firms only receive money when enough money has been raised to fund a project. The funds give neither shares in the company, fixed interest or a fixed payback date. The share in the fund is non-transactionable. The payback is by contract but is paid back in full usually one-year after the product or services goes to market.

#### **3.2. Starting a HIT fund**

To establish a HIT fund, the enterprise needs to contact the Financial Services Agency (FSA) or the responsible institution in their country. The firm then needs to provide the FSA with the necessary information that is necessary. The FSA will need the goal of the investment, the amount the firm needs, and a proposal for the interest rate on the returns. The FSA is responsible for registering the HIT fund units. It is the regional banks, credit rating agencies and post offices that sell the HIT funds (Yoshino et al., 2015). The regional banks, credit rating agencies and post offices will get the same information about the project. They will then sell the HIT fund units, deliver the capital to the firm, and deliver the monetary return to the investors when the HIT fund has reached its deadline. The bank will then return the initial investment with the pre-determined rate of return. The goal of a HIT fund is to gather capital for a firm that was denied a loan from the banks. Yoshino and Taghizadeh-Hesary (2014) mention that musicians sell HIT fund units with a high return. They also mention that public-

private partnerships were created to sell expensive HIT funds with a low return to produce 20 wind power generators. This case seems to be an exception as the HIT funds are pre-dominantly temporary. These funds are created to get the local community to support local firms, their project, and other institutions that interest them.

### **3.3. Differences between HIT funds and stocks**

“A stock (also known as "shares" or "equity") is a type of security that signifies proportionate ownership in the issuing corporation. This entitles the stockholder to that proportion of the corporation's assets and earnings”. A stock is permanent until the investor sells the stock or if the enterprise ceases to exist. HIT funds do not provide the investor with dividends, and it is pre-dominantly temporary. The firms will pay back the initial investment of each investor and add a share out according to the sales one year after revenue start. HIT funds are usually restricted in such a way that the investor cannot sell their share of the HIT fund to a third party. You can sell a stock, but not a HIT fund. Stocks have a fluctuating price, which means that the price changes from time to time. The fluctuating price can tell the investors the state of the company. A low price can indicate a slump, while a high price can indicate growth. The price could then affect the investment decision.

“In very broad terms, if the business is doing well, it has a positive effect on the stock price, and if the business is doing poorly, the price may go down. But numerous factors can affect stock prices, including overall market trends, corporate events that change how a company's stock is organized and events like mergers and acquisitions.” (2019).

The price of a stock can increase and decrease because of several different factors. A slump can decrease the price, and success can increase the price. The fluctuating price creates some insecurities because the investor does not know if the price is going to increase or decrease. An investor cannot know if the enterprise is planning to merge with a second enterprise, or if they are going to invest in new technology until the enterprise has announced it. The price of a unit in a HIT fund is fixed. A low price for a unit does not indicate a slump or a stagnation for the enterprise. The low price is in this case, often used to incentivise more people to invest. The firm will then need more people to invest if the price of a HIT fund unit is low. A HIT fund unit with a high price will need fewer investors to reach a certain amount than a HIT fund unit with a low price.



### **3.4. Differences between HIT funds and loans**

HIT funds have a pre-determined payback date, depending on when the firm start to sell their goods when the entire investment is returned. A bank loan is paid back through a monthly flow of rent, based on the interest rate. A HIT fund has a pre-determined dividend that is added to your initial investment when the enterprise is returning the investment. The firms decide this pre-determined dividend. The interest on a bank loan is volatile and can fluctuate. A fluctuating interest rate adds a certain level of uncertainty to the firms. A pre-determined dividend that cannot be changed will be an advantage for the enterprise because they will not have to worry about any changes.

### **3.5. Investor safety and risk**

Stocks are riskier than bonds and yields a higher dividend. A risky stock is usually caused by uncertainty or by a risky market. An investor who invests in these kinds of stock, cannot tell if the investment will yield some return or not. A safe stock often has a low uncertainty, which means that the investor can confidently invest in that stock. Firms will not receive investments if the company or institution is untrustworthy. In Japan, the HIT fund is maintained by the FSA, which is a government institution. The FSA makes the HIT funds trustworthy because the investors can trust that the FSA will maintain the HIT fund properly. The investors know that the FSA is trustworthy, but they do not know the enterprises' creditworthiness. (Limsamarnphun, 2017) mentioned that Japan graded the firms on a creditworthiness scale of 1-10. The investors can trust this scale due to the governments' neutrality. A private fund regulated by a private institution would advertise funds that are more profitable for them. The investors cannot know if the private institution advertises funds because they are profitable and safe for the investors, or if they are profitable for the institution. The government agency does not have a private incentive to sell funds. Such it is reasonable to believe that their information is more credible

### **3.6. Why should the firms use HIT funds?**

Many firms will have a difficult time getting a loan from banks because they are subjected to the BCAR. The BCAR is a requirement that forces the banks to set aside an amount equal to or exceeding its non-performing loans (Yoshino & Kaji, 2013). The BCAR was created to prevent future bank crises like the Lehman crisis in 2008. The firms must pay interest to the bank on multiple occasions during an agreed-upon period. The percentage of interest can

fluctuate, which causes some uncertainty for the firm. A HIT fund would, therefore, be a more advantageous method for start-ups and other firms to fund their investments. The fixed interest and one-time payment create space to start the production and to sell the goods.

A question that may be relevant would be if a firm could finance its capital through both HIT funds and bank loan. Yoshino and Kaji mention that "it is necessary that money be collected in the form of HIT funds that are able to complement the activities carried out so far by banks"(2013). The HIT fund can be used to make a firm safer because they can use the funds to start their production and establish a cash flow and liquidity. The banks are more willing to lend money to safer firms because they do not need to set aside a significant amount of capital. A firm that does not need to make substantial investments where the return does not show for years later can survive on bank loans. A fishery that has everything they need to produce and sell fish filets will not suffer as much from a bank loans interest as a start-up. A long-term goal of HIT funds would then be to generate enough capital for a start-up or a risky firm to stand on its own feet and become safer in the eyes of a bank.

### **3.7. Why should investors choose HIT funds?**

The main reason investors invest in projects is due to the rate of monetary return. The investor risks their own money when investing, which makes the rate of monetary return quite important. HIT funds generally have a lower rate of return or higher risk.

There are five reasons to invest in HIT funds:

1. They generally give returns on their investments.
2. They bring joy to the local community.
3. They give non-monetary returns to their investors.
4. The investors are a social consumer.
5. They give growth to the local economy.

#### **3.7.1 Returns on investment**

HIT funds provide the investor with a monetary return. The size of the return depends on the revenue. The investor will receive their initial investment if the HIT fund is successful, the share-out that is added to the investment will depend on the revenue. The more the firm sells, the larger the rate of return.

### **3.7.2. The joy of existence**

By investing in HIT funds, investors can help local firms that struggle to obtain loans or investment through stocks, shares, bonds, etc. The capital the funds have raised can then kickstart the production and keep the local firm going. The investor can then continue to enjoy the existence and the produce from that specific local firm. An example of a local firm that creates joy to the local community is Mack brewery. Mack brewery was founded in 1877 in the northern region of Norway (Mack, 2020). In early 2017 a Norwegian journalist from NRK reported that Mack struggled to land a deal with grocery-chain Rema 1000 (Lanes, 2017). The situation between Mack and Rema 1000 caused a large uproar amongst the population in the northern region of Norway (Valvik, 2017). The uproar caused Rema 1000 to open up, and continue selling beer brewed by Mack (Dagbladet, 2017). This situation would not have created the same level of attention if the local population did not care for Mack.

### **3.7.3. Non-monetary return**

The HIT funds try to incentivise the investors by creating a relationship between the firm and the investors. The firms have to provide the institutions that sell the HIT funds with the necessary information about the project. This information is then delivered to the investors who might be interested in the HIT fund. The investor can then use the information the HIT funds have to invest in firms that produce goods and services that interest them. A second method the HIT funds do to try to attract investors is to give the investors non-monetary return, such as exclusive goods and perks. A junmaisyu sake brewery in Japan created a HIT fund, where the investors got sent eight bottles of 720 ml junmaisyu sake, an invitation to see how the sake was brewed and they were given limited edition sake cups. By investing in HIT funds, an investor can enjoy local produce. The investors who invested in the junmaisyu sake brewery got to enjoy the locally produced sake they received as gifts, and the bottles of sake they bought, when they had finished maturing.

### **3.7.4. The investors are a social consumer**

The investors will receive the consumer surplus and parts of the producer surplus because the investors are a customer and because they receive a share-out of the profits the firm made. The consumer surplus is created when the price of a good is below the maximum price the consumer is willing to spend on one good (Pindyck, Rubinfeld, & Synnestvedt, 2013). The

produces surplus is the total sum of the difference between the market price and the marginal costs of a good (Pindyck et al., 2013). The share paid out to the investors depends on the size of the producer surplus, I call this the investor surplus.

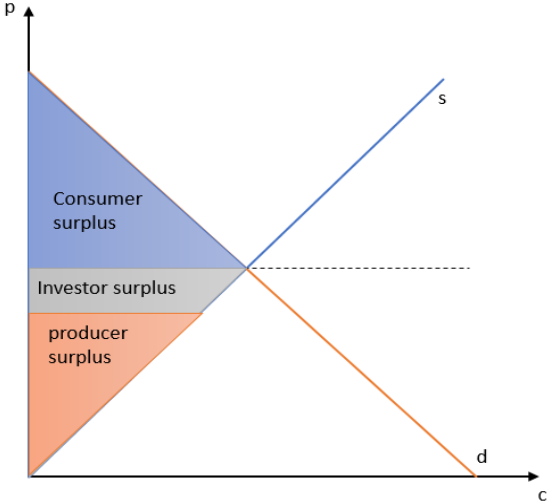


Figure 1: The HIT fund investors' consumer surplus

The graph presents the consumer surplus, producer surplus and the surplus the investor receives. The blue area is the consumer surplus, where the willingness to pay is higher than the price. Since most HIT funds are local funds, this makes the investor also a potential consumer. Without investing in the HIT fund, a certain market/firm would not appear. Since an investor can receive both consumer surplus and producer surplus, an investor might be better off investing in a HIT fund rather than a national or international fund that gives a higher rate of return. The orange area is the producer surplus, where the price is higher than the marginal cost of the good. An investor can invest in the stock market. A consumer who did not invest in the firm will not receive the investor surplus, as they are not eligible for the share-out of the revenue.

**3.7.6 Growth in the local community**

The capital gathered by the HIT funds can help the firms kickstart the business and survive for a more extended period. This can have positive effects because it can lead to economic growth if the revenue is large enough. The firms can use the revenue to expand their business by hiring more people. The city can become livelier due to the firms' expansion because there will be more people living there. The firms' profits can also spill-over to their employees in the form of increased wages. The employees can then use their increased income to consume

more products or better products, depending on their preferences. The increased wages do not necessarily get used on consumption, as the increased income also can be saved for a rainy day or a future project.

### **3.8. HIT funds: strengths, weaknesses and improvements.**

#### **3.8.1 Strengths**

The HIT funds do solve the problem with asymmetric information, as the firm will need to provide the FSA with the necessary information that is required. The investors can use this information to decide whether they want to invest or not. A second strength is the fixed price of a HIT fund unit. The fixed price of a HIT fund unit removes some of the insecurities that come with traditional stocks. The HIT funds can generate goodwill between the firms and the investors because of the non-monetary returns the investors might receive. Investors that invest in a stock invest because of the potential return. This search for potential returns can make the investors sceptical towards start-ups and risky enterprises and their projects. The HIT fund investor enjoys the existence of the firms they are investing in, and the goods they produce. The HIT fund investors want a monetary return, but it is not alpha omega. This goodwill can help the firms receive the capital they need. This goodwill also generates a relationship between the firm and the investors, a relationship that can be strengthened or weakened. The firms can strengthen this relationship by giving the investors non-monetary gifts, which I have given an example of earlier. It is for these reasons I think that the goodwill and the creation of a good relationship is a strength. The HIT funds are also as mentioned earlier graded on a scale from 1 to 10 based on the creditworthiness. Such a can create transparency for potential investors.

#### **3.8.2 Weaknesses**

The HIT funds are not perfect, and there are some problems. HIT funds rely on the goodwill of the local communities. This goodwill can disappear if the HIT fund fails. The investors might invest because they want the firm to exist, but they will also get some returns from their investment. A HIT fund that does not yield returns can weaken the trust the investor may have, and it might even deter investors from investing in that firm in the future. The fact that the investors cannot sell their units in HIT funds can also hinder the investors from investing. An investor who invests in stocks can sell the stock when they find it to be less profitable than

expected. HIT funds rely on people taking a risk and investing. Due to the late payback investors can be deterred from investing if the risk is too high.

### **3.8.3 Improvement**

Yoshino, Taghiadeh-Hesary and Nakahigashi propose that we utilise the spill-over tax revenue that is generated by green energy to increase the rate of return on HIT funds (2019). They introduced this proposal because green energy is sustainable, and it could provide a sustainable energy supply to a region. This sustainable energy supply could then attract new business, both big and small, and new apartments to the region. This new life would then increase the income tax revenue, property tax revenue, sales tax revenue and corporate tax revenue. This proposal was created to increase the rate of returns for the HIT funds in the green energy sector. This increased rate of return would, in turn, incentivise the investors to invest in green energy HIT funds. This proposal works only for the green energy sector because of its sustainability and production requirements. A power plant that produces green energy needs the first-time investment to get the equipment built; the rest of the costs goes towards maintenance. A firm that produces other kinds of goods must maintain production by gathering the necessary materials.

## **4. Theory**

There are differences between HIT funds and stocks. In this section, I am going to present the behaviour of HIT fund investors. To do this, I am going to present the government's preferences and investors' preferences. First, I will need to define an important equation. I will be using a simple equation and graphs to explain their behaviour.

### **4.1 Governments' behaviour**

The government generally invests in projects that yield a high social return, such as public goods. These public goods have a higher social return than a monetary return. I assume that the government prefer social return over monetary return. This would tell us that the government could be willing to accept a lower social return if they could get a sufficient amount of monetary return. With the assumption that the government have a higher preference for social return, I define the governments' preferences as a function of the rate of social return ( $s$ ) and rate of monetary return ( $r$ ), hence the utility function will be:  $U(s, r)$ . The government prefers projects that give a higher rate of social return to a lower rate of social

return. Hence the first-order derivative must be positive:  $\frac{\partial U(s,r)}{\partial s} > 0$ . I assume that the government have a weekly diminishing marginal return on the rate of social return, hence the second-order derivative must be negative:  $\frac{\partial^2 U(s,r)}{\partial s^2} \leq 0$ . Because of our assumption  $\frac{\partial U(s,r)}{\partial r} \geq 0$ , I assume that the governments' utility of the rate of monetary return is not strictly positive. In the case of the rate of monetary return being equal to zero, the government is indifferent to a change in the rate of monetary return. Types of public goods can be education, health care, and the army where the investments are higher than the return on capital. These investments yield a high social return because the citizens get an education. By educating the population, the government can employ competent workers in different sectors, who will create goods or services that will benefit the country. There is a chance that people may suffer from different health issues, whether it is illnesses or injuries. These injuries and illnesses might prevent the citizen from participating in work life, and they would have to pay for their stay at the hospital if the government had not given them free healthcare. The army creates a method for the government to combat threats from other countries or organisations. The army is, however, quite an investment due to the equipment costs and wages for the soldiers. All the mentioned sectors do not provide the government with monetary return because they do not produce goods that can be sold. The government can invest in enterprises and institutions that provide a monetary return, but the main factor, according to our assumption, is the social return. The government have a country to run, which means that they need a workforce that can provide wealth creation through selling products and services. This workforce needs to have the opportunity to create these products and services, which means that they, in most cases, must get an education.

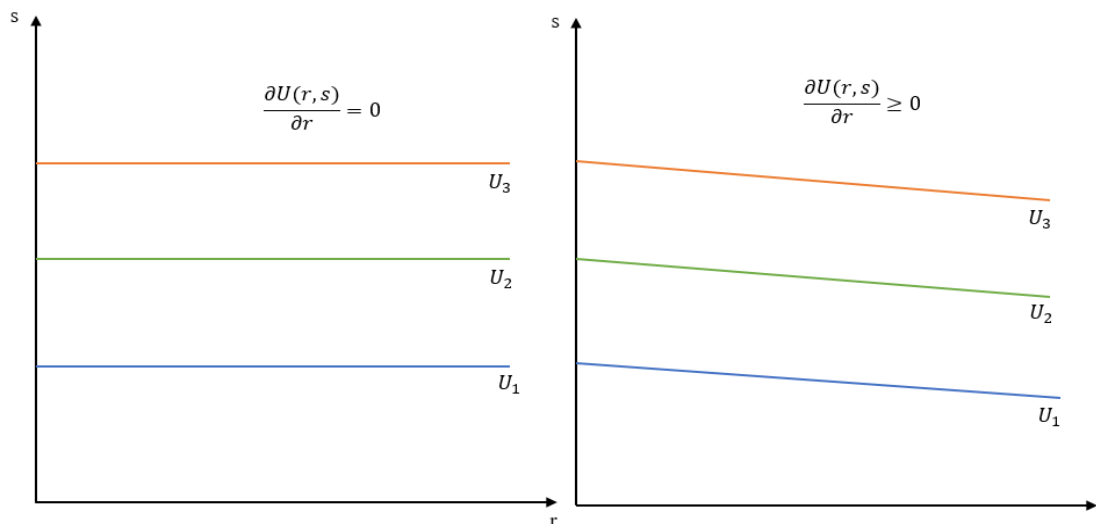


Figure 2: Government preferences

The graphs present the governments' indifference curves, where  $U_2 > U_1 > U_0$  because the government prefer a higher rate of social return. The graph to the left assumes that the government does not care about the rate of monetary return ( $\frac{\delta U(s,r)}{\delta r} = 0$ ). Hence, they are horizontal, as an increase in the rate of monetary return does not increase the utility. The graph to the right assumes that the government care about the rate of monetary return ( $\frac{\delta U(s,r)}{\delta r} \geq 0$ ). Indicating that the government are willing to accept a lower rate of social return for a higher rate of monetary return, hence, the negative slope.

## 4.2 Investors behaviour

Investors generally invest in projects that yield a high rate of monetary return, such as private goods. These private goods usually have a higher rate of monetary return than the rate of social return. I assume that the investors prefer monetary return over social return. This would tell us that the investor would accept a lower rate of monetary return if the rate of the social return is sufficient. I can, with this assumption, define the investors' preferences as a function of the rate of social return (s) and rate of monetary return (r), hence the utility function will be:  $U(s, r)$ . Due to the investors' higher preference for monetary return, the first-order derivative must be:  $\frac{\partial U(s,r)}{\partial r} > 0$ . I will also assume that the investors have a weekly diminishing return on the rate of monetary return, hence the negative second-order derivative:  $\frac{\partial^2 U(s,r)}{\partial r^2} \leq 0$ . Due to our assumption  $\frac{\partial U(s,r)}{\partial s} \geq 0$  I assume that the investors' utility of the rate of social return is not strictly positive. If the rate of social return is zero, the investor is



indifferent to a change in the rate of social return. Investors invest in stocks, bonds, obligations, etc. Investors are private persons or companies who put their own money at risk. Their intentions when investing is to make more money than they invested. The investors do not profit off social return. Some investors might have a strict ethical codex, that influences their decision on whether they should invest or not. As mentioned before, this will be a simple model, which means that I will assume that all investors do not care about social returns. Stocks behave differently, as described earlier than HIT funds because the price fluctuates, and that it can be sold and bought at any time. An investor will buy the stock that they perceive is profitable because they invest to earn money. The investors do not care about social returns as they do increase the size of their heart and not increase their bank account. This lack of interest in social return gives us as the graph below shows us vertical indifference curves. The graph below shows the investors' preferences.

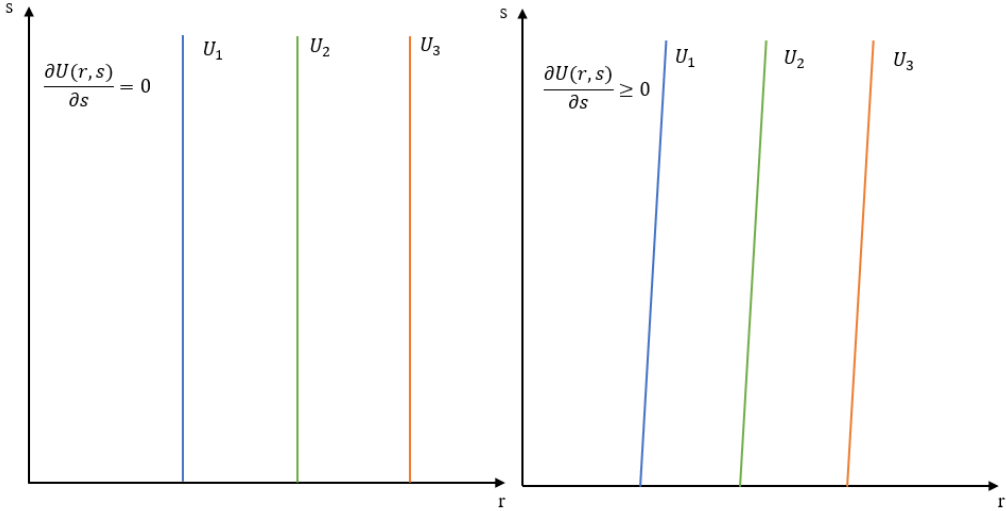


Figure 3: Traditional investors preferences

The graphs present the investors' indifference curves, where  $U_2 > U_1 > U_0$  because the government prefer a higher rate of monetary return. The graph to the left assumes that the investor does not care about the rate of social return ( $\frac{\partial U(s,r)}{\partial s} = 0$ ). Hence, they are horizontal, as an increase in the rate of social return does not increase the utility. The graph to the right assumes that the investors care about the rate of social return ( $\frac{\partial U(s,r)}{\partial s} \geq 0$ ). Indicating that the investors are willing to accept a lower rate of monetary return for a higher rate of social return, hence, the negative slope.

### 4.3 HIT fund investors behaviour

I assume that the HIT fund investors prefer both rates of social return and rate of monetary return similarly, different HIT fund investor will weight rate of social return and rate of monetary return differently. I assume that the average HIT fund investor prefers the rate of social return and rate of social return reasonably similarly. The HIT fund investors preferences are explained by the utility function  $U(s, r)$ . The HIT fund investors prefer a higher rate of social return and rate of monetary return than a lower rate of social and monetary return, hence the first-order derivatives  $\frac{\partial U}{\partial r} > 0$ , and  $\frac{\partial U}{\partial s} > 0$ . I assume that the HIT fund investors have a diminishing marginal return on both rate of social return and rate of monetary return, hence the second-order derivatives:  $\frac{\partial^2 U}{\partial r^2} \leq 0$ , and  $\frac{\partial^2 U}{\partial s^2} \leq 0$ . The utility function tells us that HIT fund investors care about the social return and the rate of return on the capital. HIT fund investors want, just as investors, return on the capital they invested, but they also want to enjoy the existence of the enterprise. Each HIT fund investor might prefer social return and monetary return differently. Some might value monetary return more than the social return, while others value the social return higher than the monetary return. It all depends on each HIT fund investors interests and situation. A HIT fund investor who has established themselves on the workforce and generated enough income to create a reserve might invest in firms who create a certain amount of social return. A person who does not have that amount of money might want to invest in firms that generate a certain level of monetary return. The indifference curve and utility function will be different for each HIT fund investor. Still, we will assume that one indifference curve and function that explains their behaviour. The Indifference curve for the HIT fund investors will be convex due to the interest in monetary and social return.

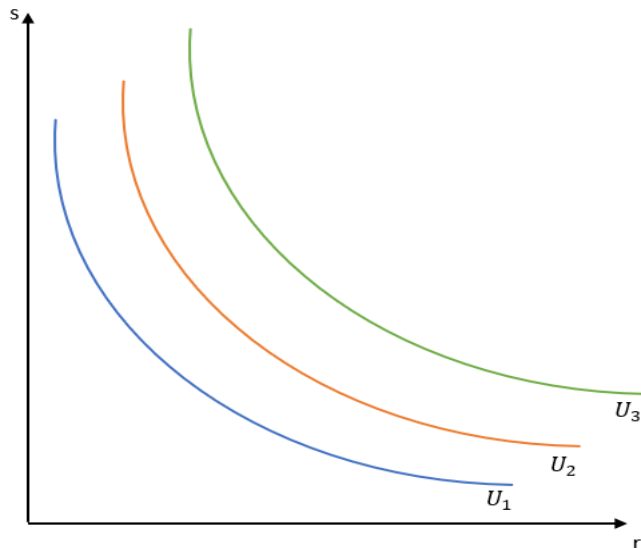


Figure 4: HIT fund investors behaviour.

The graph presents the indifference curves for the HIT fund investors, where  $U_3 > U_2 > U_1$ . The graph assumes that the HIT fund investors value both social return and monetary return ( $\frac{\partial U}{\partial r} > 0$ , and  $\frac{\partial U}{\partial s} > 0$ ). Hence the convex indifference curves, because an increase in either rate of social return or rate of monetary return can change the HIT fund investors utility. One HIT fund investor might value social return higher than monetary return, which would make the indifference curve less steep. A second HIT fund investor might value monetary return higher than social return, which would make the indifference curve steeper.

#### 4.4 The combined behaviours of the government, traditional investors and HIT fund investors

For simplicity of solving the model, I will assume the strict assumption that the government prefers the rate of social return and investors prefer the rate of monetary return. I assume that a regular market will only include the government and investors. Projects will only be financed through the government or investors. The graph below presents the different regions where the projects either will receive investments from both, one of them or neither of them. In the graph, I have marked the utility function for the government as  $U_G$ , and the utility function for investors as  $U_I$ . The utility function  $U_G$  is the worst project where the government are willing to invest (i.e. the marginal project). The utility function  $U_I$  is the worst project where investors are willing to invest (i.e. the marginal project).

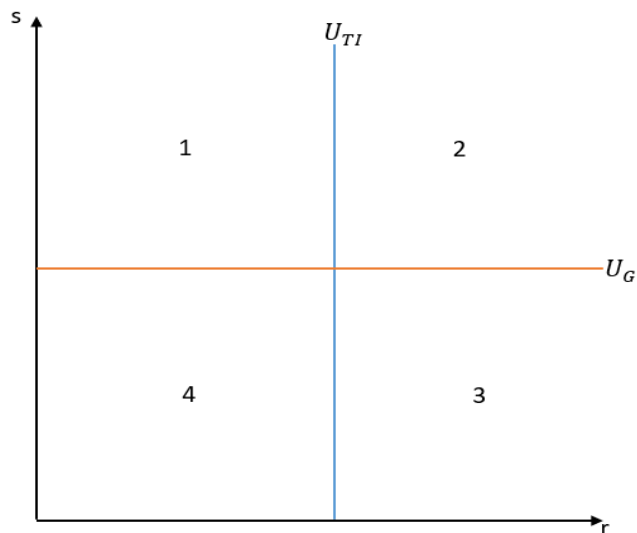


Figure 5: The behaviour of investors and the government.

There are four regions in this graph. Investors will not invest in firms or projects that are in region 1 and 4 due to the low rate of monetary return. As proven in the last section, investors do not care about social return because they do not invest in stocks to participate in charity work. The government will not invest in firms that yield social returns that are below the minimum amount required, such as the firms in region 3 and 4. Both the government and investors will want to invest in firms that exist in region 2 because they yield enough monetary and social return. Firms that exist in region 4 will not receive any investments from the government and the investors because they do not yield enough social or monetary returns. Regions 1, 2, and 3 are regions where either the social return or monetary return is high enough for either the government or the investor to invest. In region 2, both the government and the investors will want to invest because those firms yield enough rate of monetary and social return.

Adding the indifference curve for HIT fund investors to the graph yields a new region. The denominator for HIT fund investors is  $U_H$ .

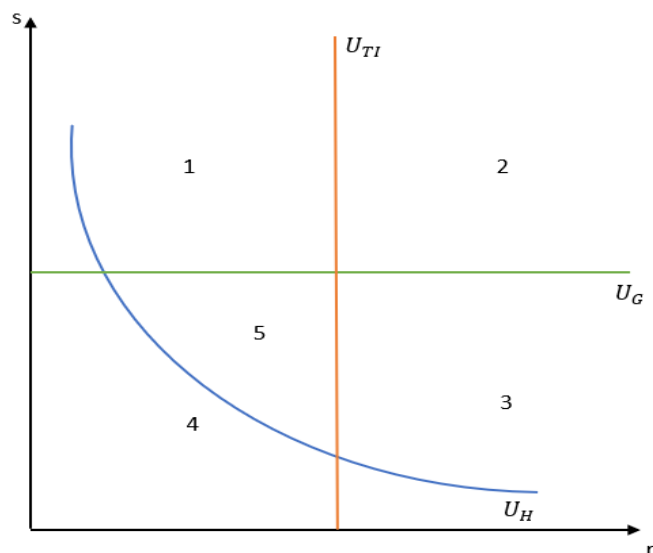


Figure 6: The behaviour of HIT fund investors, government and traditional investors.

With the added utility function, I can see that the HIT fund investors increase the total amount of firms that will receive investments. The firms that exist in region 5 will receive investments from the HIT fund investors because they yield enough social return or monetary return. Region 4 will still exist, even though it will be smaller, the size will depend on the HIT fund investors utility function. HIT fund investors will also invest in firms that exist on or above their utility function in region 1, and 3. The firms that exist below the utility function in region 1 and 3 will not receive investments from the HIT fund investors. They will, however, receive investments from either the government or traditional investors, depending on the amount of social or monetary returns they yield.

The addition of HIT fund investors does increase the total amount of firms receiving investments. Without the HIT fund investors, there would only be four regions in this graph, where every firm in area 4 would not get any investors. HIT funds do exist, and with them HIT fund investors, which creates a fifth area in the graph. This area is below the governments minimum requirement for social returns and to the left of the traditional investors minimum requirement for the rate of return on the capital. In this area, the firms can only expect investments from the HIT fund investors because the rate of return on the capital and the social returns meet the requirements necessary. The addition of HIT funds will then help the firms that exist within region 5, but there would still exist firms that would struggle to gather capital. The investments gathered from the HIT funds are not a charity. The HIT

fund investors do invest because of the social return, but the monetary return they will receive is also a part of that decision. The firms that cannot produce the social return and monetary return necessary will struggle to receive investments from HIT fund investors, the government and the traditional investors. The overall effect is that there will be an increase in total investments.

#### 4.5 Keynesian regional multiplier

The HIT funds can have a positive effect on the local economy if they are successful. The effect a successful HIT fund has can be shown using the Keynesian regional multiplier. The Keynesian regional multiplier describes the change in income ( $\Delta Y$ ) with any change to the aggregated demand ( $\Delta AD$ ) as  $\Delta Y = k(\Delta AD)$ , where  $k$  is the value of the multiplier (Philip, 2013). Philip McCann (2013) defined the standard Keynesian income–aggregate demand expression for a region as:

$$Y_r = C_r + I_r + G_r + X_r - M_r \quad (1)$$

In this function  $Y_r$  is the regional income,  $C_r$  is the regional consumption,  $I_r$  is the regional investment,  $G_r$  is regional government expenditures,  $X_r$  are regional exports and  $M_r$  is regional imports. To see how the different variables affect the regional income, I will have to modify the function to include all the variables that will affect the regional income. I will begin with the standard linear consumption function  $C_r$  is given as:

$$C_r = \bar{C} + cY_r \quad (2)$$

as it is partly exogenous of the regional income. In the standard linear consumption function  $\bar{C}$  is the exogenous regional consumption and  $c$  is the regional marginal propensity to consume. The second modification will be the function of regional investment, which is defined as:

$$I_r = \bar{I} + iY_r(1 - t) \quad (3)$$

In this function  $\bar{I}$  are the exogenous regional investments,  $i$  is the regional marginal propensity to invest. The function  $Y_r(1 - t)$  is the function for disposable income after tax, where  $t$  is the average regional tax rate. The third modification will be the standard linear import expenditure function:

$$M_r = \bar{M} + mY_r \quad (4)$$

Where  $\bar{M}$  is the exogenous regional imports, and  $m$  is the regional marginal propensity to import. The final modification I will do is to rewrite the government regional income-expenditure function as:

$$G_r = \bar{G} - gY_r(1 - t) \tag{5}$$

Where  $\bar{G}$  is the exogenous regional government income, and  $g$  is the regional marginal propensity of government expenditure. I can now put equation (2), (3), (4), and (5) into equation (1):

$$Y_r = \bar{C} + cY_r(1 - t) + (\bar{I} + iY_r) + \bar{G} - gY_r + X_r - \bar{M} + mY_r(1 - t) \tag{6}$$

Which after some rearrangements become:

$$Y_r = \frac{\bar{C} + \bar{I} + \bar{G} + X_r - \bar{M}}{1 - [(c - m) + (i - g)](1 - t)} \tag{7}$$

Which turns into:

$$Y_r = k_r(\bar{C} + \bar{I} + \bar{G} + X_r - \bar{M}) \tag{8}$$

Where

$$k_r = \frac{1}{1 - [(c - m) + (i - g)](1 - t)} \tag{9}$$

In equation (9)  $(c - m)$  is the marginal propensity to consume local goods, and  $(i - g)$  is the regional marginal propensity to invest in the local economy. Philip McCann (2013) “assume that  $i > g$ , such that regional income growth is positively associated with overall public plus private sector investment growth.” The model and the effects a change in the multiplier  $k_r$  can be shown in the graph below:

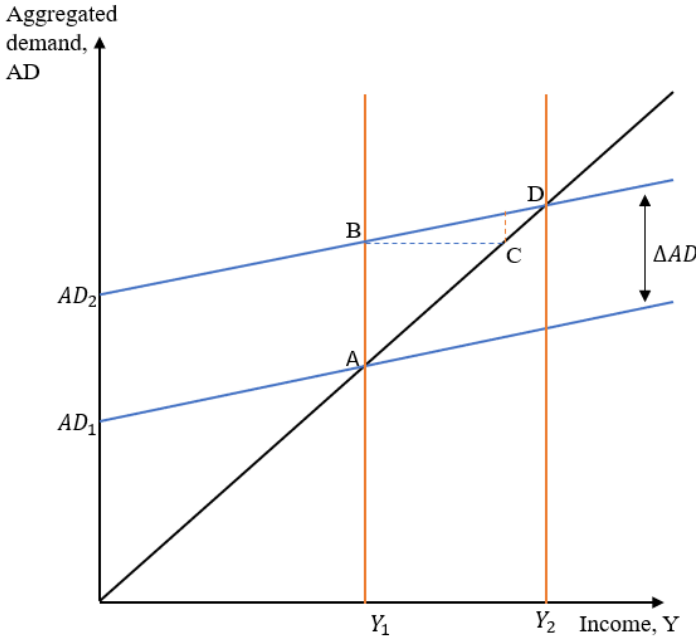


Figure 7: The Keynesian income-expenditure model with changes to aggregated demand

The graph presents the Keynesian income-expenditure model where the aggregated demand increase, following an increase in the multiplier  $k_r$ . The aggregated demand will shift upwards if there is a positive change in either the regional marginal propensity to consume,  $c$ , or to invest,  $i$ . The graph will then shift from point A to point B, before shifting over to point C, before eventually stopping at point D, where the aggregate demand curve meets the new income curve. If there were an increase in the regional marginal propensity to import or government expenditure, the aggregated demand would shift downwards from point D to point A.

In the Keynesian regional multiplier, the regional marginal propensity to invest increase the aggregated demand, which in turn increases the regional income. The behaviour of HIT fund investors will lead to more firms receiving investment. The marginal propensity to invest can then increase if a HIT fund is implemented, which will lead to an increase in the aggregated demand and regional income.

## **5. Real-life examples**

Some of the examples of the usage of HIT funds are a music fund, a Wind-Weave towel fund and The Music Securities, Inc.'s Sécurité Disaster Area Support Fund. All of these examples are retrieved from Hometown Investment trust funds: a stable way to supply risk capital (Yoshino & Kaji, 2013). The Wind-Weave towel fund, the music fund, The Music Securities, Inc.'s Sécurité Disaster Area Support Fund, and the junmaisyu sake fund are four different funds. The Wind-Weave towel fund, the music fund, and the junmaisyu sake fund are funds that support a single firm or person. The Music Securities, Inc.'s Sécurité Disaster Area Support Fund is a fund whose purpose is to reconstruct and revitalise the damaged and destroyed regions.

### **5.1. Music fund**

The Japanese rapper AK-69, who produced music as an independent artist, utilized this music fund multiple times to create albums. The total amount he raised from those funds were 31,75 million NOK after eight years. These funds had an average yield of 111,3% and a plus yield of 11,3%. In 2011 AK-69 created a HIT fund where the accounting period started the 26<sup>th</sup> of January 2011. AK-69 then used the funds he had gathered to produce and release the album. 25<sup>th</sup> of September the same year AK-69 paid the dividends to each HIT fund investor. With



each unit costing 953,48 NOK, AK-69 managed to raise 7,38 million NOK to create his The Red Magic album. This album sold 100 488 copies and had a redemption result of 104,88%. Hometown Investment trust funds: a stable way to supply risk capital (Yoshino & Kaji, 2013) does not mention the price of the album, how much he earned from the sales or how much return he paid to the HIT fund investors. Every HIT fund investor who invested in his music fund made 1000 NOK. Hometown Investment trust funds: a stable way to supply risk capital (Yoshino & Kaji, 2013) does not tell us if there were any other benefits to this fund other than the monetary return.

## **5.2. Wind-Weave towel fund**

The Wind-Weave towel fund was created for Ikeuchi Organic Inc (Yoshino & Kaji, 2013). The purpose of the fund was to expand the use of organic cotton towels, provide educational activities that will increase the quality of life for Tanzanian farmers. The last part of the purpose was to expand sales by commercialising new products. Because of the civil rehabilitation, Ikeuchi Organic Inc started a HIT fund. Ikeuchi Organic Inc then started the HIT fund in 2010, with each unit costing 4767,4 NOK (Yoshino & Kaji, 2013). Ikeuchi managed to raise a total of 524414 NOK. The accounting period started on the 1<sup>st</sup> of April 2011 and ended the 31<sup>st</sup> of March 2012. The redemption rate landed on 104,18%, which gave the HIT fund investors a positive return of 4967 NOK (Yoshino & Kaji, 2013). The Wind-Weave towel fund was successful because Ikeuchi would not have paid dividends if they did not profit from the sales. Ikeuchi continued with the success from 2011 and used the fund for the 2012 series, and a new project they created. Because of the lack of information, I cannot precisely calculate how much Ikeuchi made from the sales.

## **5.3. The Music Securities, Inc.'s Sécurité Disaster Area Support Fund**

To explain and understand how The Music Securities, Inc.'s Sécurité Disaster Area Support Fund was created and how it works, I will need to explain why it was created. In 2011 Japan was struck by an earthquake that caused a significant amount of dead, injured and destruction. To help with the reconstruction of the destroyed areas, and to support the disaster survivors, the Japanese government issued three supplementary budgets in 2011. The Japanese government also launched a group subsidy system which was aimed at shopping districts, local industries and clusters. This group subsidy system would let the firms that formed the

core of the local economy take the lead when they were going to reconstruct the region, formulate and submit reconstruction plans. The prefectural government would then give these firms subsidies if they approved the restoration or repair of facilities or equipment, or maybe both simultaneously. This was not the only measures the government took to fix the situation. Because of overlapping debt problems, the Japanese government created responses to fix this problem, a Special Recovery Area Interest Subsidy System and emergency response financial loans. One of the responses to the overlapping debt problems was the initiation of industrial reconstruction organisations. The industrial reconstruction organisations' purpose was to inject capital into firms, which had excessive debt and the potential for a turnaround. These organisations would also assist with the purchase of non-performing loans. A Turnaround Initiative Corporation for Business Operators was launched with the purpose to provide support to revitalise the businesses.

As mentioned in the paragraph above, and which is explained to greater detail in Hometown Investment trust funds: a stable way to supply risk capital (Yoshino & Kaji, 2013), the Japanese government initiated a lot of different methods to revitalise and reconstruct the destroyed and damaged regions. Naoyuki Yoshino and Sahoko Kaji also mention that a lot of the towns that are affected by earthquakes and tsunamis have seen a population decrease. A decrease they mention started before the Great East Japan Earthquake in 2011 (2013). This population decrease creates a stagnation in the local economy, which causes businesses to close their doors. This decrease in business and population will make the towns emptier and more lifeless, which again can incentivise a further population decrease. To combat this dilemma, Naoyuki Yoshino and Sahoko Kaji mention that commensurate risk management was necessary. They also mentioned that HIT funds could play a useful role in regional reconstruction development (2013). A HIT fund was then launched under the name Music Securities, Inc.'s Sécurité Disaster Area Support Fund. The Music Securities, Inc.'s Sécurité Disaster Area Support Fund is a hybrid fund as it is a combination of an aid-type fund and an investment-type fund. This fund collected capital for disaster relief, and it had rapid success as it collected donations less than two months after the earthquake. The Music Securities, Inc.'s Sécurité Disaster Area Support Fund established 34 funds, who have collected approximately one billion yen that is being used by 33 different operators, according to (Yoshino & Kaji, 2013). This fund gathered donations through the internet from 23 000 contributors, where the size of each fund ranged from 670000 NOK to 9,53 million NOK.

#### **5.4 Junmaisyu sake fund.**

The purpose of the junmaisyu sake fund is to support those breweries that are producing junmaisyu sake from pure rice and sake that is matured for 3 years (Yoshino & Kaji, 2013). The 3-year maturity time and expensive raw materials have made it difficult for these breweries to obtain loans from banks that last for more than 1 year. By establishing a HIT fund, the breweries could obtain long-term capital, which they could use to start producing the junmaisyu sake. This would allow the breweries to sell the junmaisyu sake at a schedule they preferred. The HIT fund investors who invested in the junmaisyu sake fund would get to enjoy the changing taste of the sake. One of the breweries that received capital from a Junmaisyu sake fund was Shimomura Brewery (Yoshino & Kaji, 2013). Shimomura Brewery received capital from the Oka Harima fund. The Oka Harima fund managed to gather 629297 NOK, selling the HIT fund units at 4767 NOK per unit. The accounting period started 1<sup>st</sup> of January 2009 and was redeemed the 31<sup>st</sup> of December 2011. The accounting period lasted 3 years because the Shimomura Brewery sold sake that was matured for 2 years. The redemption rate was 107,27%, which yielded the HIT fund investor 5114 NOK before tax. The HIT fund investor would also receive eight 720ml bottles of sake as a gift from Shimomura Brewery (Yoshino & Kaji, 2013). Shimomura Brewery managed to increase their sales with 108% by June 2011 after three years of flat sales. This increase in sales increased even further by June 2012, where the sales increased by 116%. To fully utilize the local rice, Shimomura brewery used the funds to obtain long-term loans. Shimomura Brewery would also maximize their regional resources by developing their business (Yoshino & Kaji, 2013).

### **6. Discussion**

To answer the question of whether HIT funds are viable or not, I must review the different aspects that have been described earlier. I will also review an article from Suryo Arianto Nugroho because he argues that HIT funds could be used in Indonesia, and he mentions two different methods of implementing HIT funds.

## **6.1. The economic development and the growth of Small-Medium Enterprises in Indonesia: a Hometown Investment Trust fund approach**

Suryo Ariyanto Nugroho (2015) argues in this article that HIT funds can help fund firms in Indonesia. The reason why he argues for HIT funds is that HIT funds reduce information asymmetry, it provides risk capital, and it manages to connect the investors with firms. Suryo Ariyanto Nugroho did argue for two different models of implementing HIT funds in Indonesia. These two models were to either use the universities as business operators for HIT funds or to implement a rural development strategy through the integration of HIT funds and cooperatives. Both ideas are meant to help fund firms and increase innovation amongst the firms, as the level of innovation is quite low compared to the larger firms. Suryo Ariyanto Nugroho mentions that both models have not been tested, and therefore would need further research.

### **6.1.1 Using the universities as the business operators for HIT funds**

Suryo Ariyanto Nugroho (2015) argues that incorporating universities as the business operators of HIT fund would be a good idea. By incorporating universities as business operators, the firms would be assessed by the university's experts, which would be its researchers and professors. The researchers and professors would also be responsible for educating the firms about their situation and how to improve it. As an educational platform, the universities do not have the incentive to profit from selling HIT funds. It would be more valuable for the universities to perform top quality assessments and guidance to make the HIT funds successful, due to the reason that it would increase their reputation as an educational platform and a business operator. A second reason why universities can be used as business operators is the opportunity to motivate the students to become entrepreneurs. The universities could create opportunities for the students to become interns or as a consultant, giving the students experience in solving problems and working with a team to create economic growth for the firm. The firm, can through this method, get an insight on potential employees, while at the same time receive insight on how they can improve their business and use the funds to create growth. The investor can, through the website, the HIT fund is advertised on, receive credible information about the firm, the project, and the potential of the project.

### **6.1.2 Rural Development Strategy through the integration of HIT funds and cooperatives.**

The second model was for the government to implement the Rural Development Strategy through the integration of HIT funds and cooperatives. Cooperatives are defined as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise” (International Labor Organization, 2020). Suryo Ariyanto Nugroho (2015) argues for this model as well, because cooperatives played an important part in developing rural areas in Indonesia (2015). Indonesia established Induk KUD to manage and help all of the cooperatives. The Induk KUD helped the cooperatives with the cooperative movement expand joint business relationships. They ensured the establishment of a business climate that supports cooperative survival and development. Education and training develop cooperative business and improving the welfare of its members was also a part of Induk KUDs’ job. The reason why Suryo Ariyanto Nugroho argues for this second model is that even though there are many benefits with cooperatives, there are limits to the cooperatives fund. The size of the fund depends on the contribution of each member. To solve this limitation, Suryo Ariyanto Nugroho argues that the integration of HIT funds would expand the cooperatives external source of funds (2015). The investors would then invest through a website, through the cooperatives or over the counter. Because cooperatives already have been implemented, and its similar business model to HIT funds, it would be quite easy to implement HIT funds. There would be better support from the government through SMEs and the Ministry of Cooperatives. There is also a vast network of cooperatives in both urban and rural areas in Indonesia, which could create a wider positive effect of implementing HIT funds. This could also be the case for other countries in similar situations as Indonesia. Suryo Ariyanto Nugroho argues that universities can be used in this model as the cooperatives have fewer experts than the universities. By cooperating with the universities, the cooperatives could use the universities expertise to develop the firms. The cooperatives could also execute a fundraising method that were more efficient.

## **6.2 The viability**

HIT funds are not as viable in the short run as they are in the long run. HIT funds are for the most part used in Japan, and not anywhere else. The population and firms may be sceptical

towards HIT funds and hesitant to try it out. HIT funds require a certain amount of trust to work, as they will need to gather enough capital to help the firms. If the HIT funds turn out to be unsuccessful, the population will lose trust and stop investing in future HIT funds. The firms will not utilise HIT funds as a method to gather capital if it does not make any difference to their ability to finance their projects. The scepticism towards HIT funds can be increased further if the government is seen as untrustworthy, or if a private firm manages it. The fact that the investors might not receive any monetary return before it has gone a few years might scare the investors and increase the scepticism. There is also a risk that there are too few investors who invest in the HIT fund. The firm might also fail to create enough revenue to pay the investors back. The investor could end up having wasted their money on a project without getting anything in return.

HIT funds become more viable if the government uses it as a long-term solution, instead of a quick fix to boost the investments in riskier firms. There are several reasons for why HIT funds are viable.

The HIT funds require the population to take a chance and trust them if they are going to succeed. Trust is not a thing that is immediately earned, it takes time to build and make it robust. This trust can if appropriately managed by a trustworthy firm, such as a university or other trustworthy institutions, increase. Suryo Ariyanto Nugroho's' idea of using universities as business operators would make HIT funds more trustworthy. Universities are, for the most part, government-owned, which makes the incentive to profit from selling HIT funds quite low. The universities have already gained the population's trust because they have an essential role in society. By having the universities manage the HIT funds and assess and consult the firms, the scepticism towards HIT funds can decrease. The same can happen with Suryo Ariyanto Nugroho's second idea of having cooperatives manage HIT funds. By adequately managing HIT funds and assessing firms, the scepticism toward how HIT funds are managed will decrease. This trust will further increase for each successful HIT fund that has been created. The more successful HIT funds that exist, the more robust the trust towards HIT funds will be. The firms are required to provide the business operators with the necessary information about the project. Information that will be accessible to the investors, and combined with the assessment of the business operators, the information asymmetry will be quite low. The firms will also be rated on a creditworthiness scale from 1 to 10. The investor

can then be more confident when investing in HIT funds because their analysis of the profitability of the project will be almost identical to the firms and the business operator's analysis. A firm with a high creditworthiness score will also attract investments easier because the investor can trust that the firm will yield some monetary return.

The behaviour of HIT fund investors does speak for the viability of HIT funds. The HIT fund investors care about both the monetary return and social return, as proven in the theory chapter. HIT funds do not provide the investors with the same level of monetary return as the stocks and shares do. They do, however, provide the investor with a social return. A HIT fund investor invests because they view the project profitable enough, and they also enjoy the existence of the firm. The monetary return is not as crucial to the HIT fund investor as it is to an investor who invests in regular stocks and shares. Firms who would not receive investments from selling stocks and shares, would not receive investments from HIT fund investors if they only cared about the monetary return. As shown in chapter 4.4, HIT fund investors care about both social and monetary return. The behaviour of HIT fund investors would lead to an increase in regional investment. The increase in investments would then lead to economic growth as proved by using the Keynesian regional multiplier. The consumption would also increase because the firms would have enough funds to begin their project, and the employees would experience an increase in wages. The employees could then increase their budget because of the increased income.

By being interested in the social return, the HIT fund investors open an opportunity for the firms to strengthen the relationship between them. The firm can provide the HIT fund investor with a non-monetary return, as well as monetary and social return. Let's look at the Oka Harima fund, where the Shimomura Brewery provided the HIT fund investor both with a monetary, non-monetary and social return. The HIT fund investors received bottles of sake as a gift from the brewery. The bottles of sake were only a bonus for the HIT fund investor, Shimomura Brewery did not need to gift them bottles of sake. Shimomura Brewery could have paid the monetary return the HIT fund investor wanted and continued with their production. The strengthened relationship could lead to future investments if the firms were to create a new HIT fund.

HIT funds provide the firms with capital, which they must repay to the investor. The repayment will, however, take place one year after the first year of revenue. For firms with long production time, the late repayment is excellent because it allows the firm to plan the sales period and production period on a schedule they prefer. By having a late payback date, the firms can spend the time to manage the project appropriately and prepare the necessary steps to start the next project or production. The firms do not need to finance their project with HIT funds alone, because they can use the HIT funds to become eligible for a bank loan. Because of the BCAR, the banks will not lend money to firms that they deem are too risky. By gathering capital from the HIT funds, the firms can become less risky because they have increased their equity and the sum of money they need to borrow have decreased. The banks will not need to set aside the same amount of assets as they had to when the firm had not gathered funds through the HIT funds.

The HIT funds are not exempt from any problems. HIT funds have a few problems, whereas most of them relate to whether the investors want to take the risk.

The trust between a HIT fund investor and the HIT fund can break. HIT funds can fail, which would put the HIT fund investor in a worse position than they were in before they invested. The HIT fund has restrictions that do not allow the HIT fund investor to sell their share of the fund. The HIT fund investor must commit fully to a HIT fund and hopes that they reap the rewards and not face the consequences. For potential HIT fund investors, this can be too risky. HIT fund investors who invested in failed HIT funds will also be less willing to take such high risks in the future. The late payback might also scare potential HIT fund investors. There are a lot of things that can happen to the economy and the firm before the HIT fund investors receive any monetary return.

As shown in chapter 4.4, HIT fund investors care about both social and monetary return. The problem, in this case, is that I cannot accurately predict how much social return or how much monetary return they might need to invest. The graph I have made is an average because I think some HIT fund investors will prefer more monetary return, while others might value more social return. This could lead to straighter indifference curves. This could be different from country to country, depending on whether their population cares about the community or



not. HIT funds might not work in a profit-centred community, as the HIT fund does not yield the same amount of monetary return.

HIT funds biggest problem is that there is no guarantee that the population will invest. The positive effects of HIT funds do not matter if no one invests. The HIT fund can be quite attractive and run by a trusted institution, it is still in the mercy of the potential HIT fund investors choice. The same case goes for stocks, shares and bonds. The monetary return can be great, and it will not do anyone anything good if no one invests.

## **7. Conclusion**

Hometown Investment Trust funds are funds that raise capital usually from local investors to fund local projects such as, start-up of firms or product expansions for firms. The HIT funds have several strengths and some weaknesses.

A government institution manages the HIT funds, in Japan, it is the FSA that manages the HIT funds, and the banks, post offices and credit rating offices sells them. The firms are also assessed and rated on a scale from 1-10 on their level of creditworthiness. The HIT fund investor can because of this trust that the money will not take any detours to the firm and from the firm back to the HIT fund investor. The firms are required to provide the banks, post offices and the credit rating offices with the necessary information about the project they want to fund. Combined with the assessment, and creditworthiness, HIT funds can remove the information asymmetry. HIT funds target the goodwill of potential investors. HIT funds provide the investors with a smaller amount of monetary return than stocks, shares and bonds. To incentivise the investors to invest, the HIT funds play on their goodwill and bond towards the community. By investing in the HIT fund, the investor can prolong the life of the firm or give it a second chance. The total amount of investment in the region will also increase if they invest in the firm, creating economic growth, as proved by the Keynesian regional multiplier in chapter 4.5.

The HIT funds carry a lot of risks. The HIT fund investor cannot sell their HIT fund unit to a different person. They are stuck with the HIT fund unit until the HIT fund have been redeemed or if it failed. There a lot of things that can affect the firm before the HIT fund investors receive the monetary return. The economy can suddenly crash, it can experience a

growth spurt, there might be a malfunction with the production, the product might not sell as well as planned, etc. The population might perceive HIT funds to be riskier than they are because they are not as familiar with HIT funds as they are with stocks, shares and bonds. HIT funds have existed and been used in Japan for quite some time. The Japanese people are therefore more familiar with HIT funds, and more willing to invest.

By looking at the strengths and weaknesses, I can conclude that HIT funds are viable if the government can implement HIT funds properly and incentivise people to take the risk. The strengths outweigh the weaknesses. Most of the weaknesses stem from the high risk the HIT fund investor must take when HIT funds have just been implemented. A country should not use HIT funds as a quick fix to solve a problem in the short run. HIT funds work better in the long run because of the amount of trust they need in the start. The positive effects that happen to the local communities are a huge plus.

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