



The Current State
of Impact Investing in Japan

2017

2018.2.19

Global Social Impact Investment Steering Group (GSG)

Executive Summary

Japan's impact investing sector in a nutshell

The Japanese impact investing sector is a product of its unprecedented super aging demography, its advanced economy led by powerful corporates, and its nonprofit sector with strong expertise in disaster relief, elderly care, and healthcare. The key features of the demand and supply sides of the impact investing sector include the following:

Demand side

- Japanese society faces major structural issues such as the world's fastest ageing demographic, poverty among children, and shrinking regional economies. The government-led resource reallocation model from the post-war economic growth period has its limit in addressing these social challenges. Developing a new flow of private money to social challenges is critical.
- Healthy growth in the number of nonprofit organizations especially in the period immediately following the devastating earthquake and tsunami in eastern Japan in 2011.
- Emergence of social enterprises in the recent past, leading to approximately 200,000 ventures in number and employing 5.8 million people. Given the lack of a legal organization, many social enterprises operate as for-profit entities.
- Expansion of corporate engagement in social issues, particularly with the spreading of concepts such as creating shared value (CSV) and base of the pyramid (BOP).

Supply side

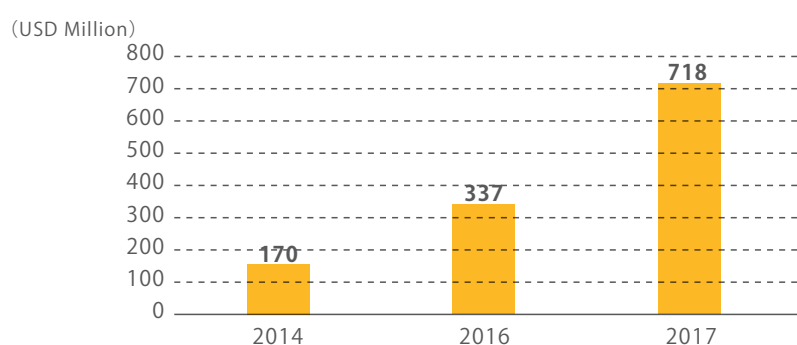
- Substantial role of crowdfunding platforms to mobilize individual donations and investments for impact investing projects.
- Involvement of mainstream financial institutions, notably the largest pension fund in the world, Japan's Government Pension Investment Fund (GPIF), which has made a commitment to ESG investing.
- Entrance of major private foundations that are willing to provide risk capital that enables other investors with lower risk appetite to participate in impact investing projects.

Market size of Japan's impact investing sector

The current size of the impact investing market in Japan is estimated to be at least US\$ 718 million¹. The two-fold increase from the 2016 figure of US\$337 million can be attributed to two key factors: 1) the entrance of new market players; 2) the additional capital commitments by existing impacting investors. In terms of target sectors, health and medical care attracted the most investments.

¹ All monetary figures in this document are calculated at US \$1 = 100 Japanese yen.

Figure 1. Trend of the Japanese impact investing market size



2017 highlights

Three key achievements are worth highlighting from the Japanese impact investing landscape in 2017.

① Enactment of the Dormant Accounts Utilization Bill

A seminal law for the Japanese impact investing sector - utilization of dormant account funds for social causes - was enacted in December 2016. As a result, up to US\$700 million (after deducting refunds) annually will be channeled to the private sector in the form of grants, loans, and equity for the purpose of tackling social issues that are deemed challenging to resolve by government efforts alone². This bill will come into effect by mid 2018, within 1.5 years of enactment. In May 2017, the Cabinet Office set up a council specifically for the utilization of dormant account funds. Subsequently, in September 2017, the council published an interim report on some of the key issues such as the need for an optimal governance structure for the agency responsible for fund distribution and incorporating innovative methodologies from the private sector. This new flow of funds from dormant accounts is expected to serve as a positive stimulus to the overall impact investing sector.

② Emergence of social impact bonds (SIBs) in Japan

Social impact bonds (SIBs) emerged as a full-fledged social financing mechanism when the City Governments of Kobe and Hachioji decided to commit funds to SIBs in March 2017. A range of investors from individual investors, private foundations, to major retail banks backs these SIBs.

Apart from SIBs, national and local governments are currently exploring the use of other Pay For Success models. To realize them, regulatory adjustments allowing for multi-year planning, implementation, and payments, as well as the development of intermediaries, will be required.

③ Participation of mainstream financial institutions

The research behind this report confirmed the active participation of mainstream financial institutions in the Japanese impact investing sector, including life insurance companies, major commercial banks, and venture capital firms. Regional banks are also starting to enter the market, which point to a significant potential segment.

² Source: Cabinet Office and Ministry of Finance (2017) 2013-2015 data

Progress on key recommendations

The Japan National Advisory Board of the Global Social Impact Investment Steering Group (GSG)³ proposed seven key recommendations towards the expansion of the Japanese impact investing sector in 2015. Two years on, major progress has been observed in three of the seven areas:

- Recommendation 1: Utilization of dormant account funds
- Recommendation 2: Introduction of social impact bonds and development impact bonds
- Recommendation 5: Promotion of social impact measurement

Given the increasing demand for investments in social and environmental initiatives, stakeholders are pushing for the establishment of legal entities and certifications for social purpose organizations (Recommendation 3). The following table summarizes the progress against each recommendation since 2016 as well as the suggested next steps.

Progress	Latest activities	Issues and next steps
Recommendation 1: Utilization of dormant account funds		
Major progress achieved	<ul style="list-style-type: none"> ● Dormant Account Utilization Bill enacted in December 2016 ● Dormant Account Utilization Council established under the Cabinet Office in May 2017 ● Interim report published by the Council in September 2017 	<ul style="list-style-type: none"> ● Now that the supply side of dormant account funds has achieved progress, the demand side requires structure and coordination. For this, promotion of innovative, successful cases is key. ● Leverage dormant account funds to mobilize additional capital into the impact investing market and achieve a more sustainable flow of money. ● Create opportunities for talent development in the social sector. ● Promote understanding of social impact measurement and relevant frameworks.
Recommendation 2: Introduction of social impact bonds and development impact bonds		
Major progress achieved	<ul style="list-style-type: none"> ● Implementation of SIBs by the Kobe and Hachioji cities in July 2017. ● Implementation of Pay For Success projects by two regional cities. ● Launch of SIB pilot by the Ministry of Health, Labour, and Welfare in Sept 2017. 	<ul style="list-style-type: none"> ● Push Pay For Success beyond local government initiatives to broader nation-wide scale. ● In order to enable multi-year implementation and payment, consider establishing a similar mechanism to the "Outcome Fund" by the UK Cabinet Office. ● Develop frameworks to provide technical and financial support to intermediaries that are necessary to the implementation of Pay For Success mechanisms.
Recommendation 3: Establishment of legal entities and certifications for social purpose organizations		
No major progress	<ul style="list-style-type: none"> ● A special committee within the Liberal Democratic Party published a report on expansion of social venture initiatives in May 2017. ● As part of the plans to revive regional economies by the Prime Minister's Office, an enabling environment for private sector-led initiatives was emphasized in June 2017. 	<ul style="list-style-type: none"> ● Promote certifications through private-public partnerships. ● Raise public awareness by recognizing exemplary cases of social innovation.

³ Formerly known as the G8 Social Impact Investment Taskforce

Recommendation 4: Establishment of tax benefits for impact investing		
No major progress	<ul style="list-style-type: none"> ● The Japan Association of New Economy published a report on venture philanthropy and impact investing in April 2017 and proposed recommendations regarding public-interest organizations and tax benefits. 	<ul style="list-style-type: none"> ● Prioritize establishing legal entities and certifications related to social purpose organizations.
Recommendation 5: Promotion of social impact measurement		
Major progress achieved	<ul style="list-style-type: none"> ● The Social Impact Measurement Initiative (SIMI) launched the "Social Impact Measurement Roadmap 2017-2020" in June 2017 ● Impact measurement guidelines were created and case studies compiled by SIMI's eight working groups. 	<ul style="list-style-type: none"> ● Promote common understanding and a culture of measurement through SIMI's working groups on guiding principles and guidelines. ● Develop a practical toolkit through SIMI's other working groups ● Create capacity building opportunities for evaluators, implementers, investors, and intermediaries
Recommendation 6: Clarification of fiduciary duties		
No major progress	<ul style="list-style-type: none"> ● While no major progress has been made with regards to clarifying the relationship between impact investing and fiduciary duties, multiple examples of institutional investor participation in impact investing emerged in 2017. 	<ul style="list-style-type: none"> ● Promote research on the correlation between impact investing and financial returns.
Recommendation 7: Expansion of individual investors		
Some progress made	<ul style="list-style-type: none"> ● Individual investors participated in Kobe City's SIB project. In this case, private foundations furnished risk capital to lower risk for individual investors. ● Thanks in part to the growth of equity-based and loan-based crowdfunding platforms, an increasing number of individuals is involved in impact investing. In comparison to European and North American markets, however, the menu of options for individual investors is limited. 	<ul style="list-style-type: none"> ● Explore match-making between private wealth management and impact investing. ● Promote the development of impact-focused investment trusts operated by asset management firms, specifically targeting individual investors. ● Engage with crowdfunding platforms to incorporate impact measurement into their mechanisms. ● Work in synch with the above-mentioned tax benefits for impact investing.

An overarching challenge across the recommendations is building the capacity of social enterprises and developing intermediaries that can support these ventures. It is imperative to nurture entrepreneurs and business professionals who are capable of running effective social enterprises that not only meet the increasing supply of impact investing, but also learn and grow with impact investors.

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Introduction

Global Social Impact Investment Steering Group and National Advisory Board

The Global Social Impact Investment Steering Group (GSG) was established with the objective of globally promoting social impact investment, based on the appeal at the Summit Conference held in June 2013 by the UK Prime Minister David Cameron. Formerly known as the G8 Social Impact Investment Task Force, GSG was rebranded in August 2015 when five additional member countries joined. Sir Ronald Cohen, the founder of a British dormant account fund called Big Society Capital, serves as the chairman and has organized meetings from 2013 to 2014, culminating in a Task Force Report in 2014. Since the rebranding in 2015, GSG meets once a year at the annual conference while several working groups are engaged in specific issues.

GSG requires its member countries to form a national advisory board. Founded in 2014, Japan's National Advisory Board (hereafter, "National Advisory Board (NAB)") is comprised of experts from various sectors throughout Japan.

As of November 2017, the National Advisory Board consists of the following members:

Chairman

- **Hiroshi Komiyama** Chairman, Mitsubishi Research Institute, Inc.

Vice Chairman

- **Masataka Uo** CEO, Japan Fundraising Association

Board members

- **Atsumi Arima** Executive Officer, Mizuho Bank
- **Shuichi Ono** Executive Director, The Nippon Foundation
- **Ken Shibusawa** Founding Partner & Chairman, Commons Asset Management, Inc.
- **Tomoya Shiraishi** CEO, Social Investment Partners
- **Masataka Fukao** Chairman, Community Foundation Japan
- **Takehiro Fujimura** General Manager, Mitsubishi Corporation CSR & Environmental Affairs Department
- **Hiroshi Mikitaki** Executive Director, Japan Association of New Economy
- **Junichi Yamada** Senior Special Advisor, Japan International Cooperation Agency

This report is an annual report on impact investing in Japan that dates back to 2014 when the first edition was published.

About this report

Chapter 1 focused on impact investing in the global context looking at the history and definitions. Chapter 2 zooms in on the Japanese market, in particular to estimate the market size of impact investing sector. Finally, Chapter 3 is structured around the seven recommendations put forward in 2015 and explains the progress to date in each area. With regards to the market size estimation, the research conducted surveys with impact investors.

This report was prepared under the supervision of the National Advisory Board; it is mainly written by the NAB secretariat, with support from the Japan Research Institute. This report was translated into English and edited by Earth Company. We would like to express our appreciation to all those who participated in the preparation of this report.

For any questions or comments, please contact the SIIF Secretariat:

Japan Social Impact Investment Foundation <info.siif.or.jp>

Chapter 1: Impact Investing Overview

1 History and Current State of Impact Investing

According to the Global Impact Investing Network (GIIN), impact investing is defined as investment that aims to generate financial returns and social/environmental returns at the same time. While various needs exist among investors, investees, and intermediaries, the impact investing market is steadily expanding especially in Europe and North America.

This chapter summarizes the history and background of impact investing as well as the definitions and market sizes in different countries.

1-1 History of Impact Investing

The first occasion of the use of the term "impact investing" dates back ten years to 2007 at a conference organized by the Rockefeller Foundation.

Further back in history, discussions took place regarding the need for financial institutions that contribute to environmental and social good when Triodos Bank was being formed in the Netherlands in 1968. Later, the establishment of a foundation that provides funding to social enterprises in 1971 marked the beginning of impact investing in Europe. Subsequently, many financial institutions and cooperatives emerged that focus on social finance, community finance, environmental finance, etc. including the Co-operative Group in the UK and the GLS Community Bank in Germany.

In the almost 50 years of impact investing in Europe, a major milestone happened in the year 2000 when Sir Ronald Cohen established the Social Investment Task Force. As a result, a wave of new foundations, organizations, and companies was created to contribute to the expansion of impact investing activities. In the years to follow, a few more milestones were achieved in the UK: establishment of Bridges Ventures, Community Development Financial Institutions (CDFIs), the Charity Bank, and a new legal entity called the Community Interest Company for social enterprises that want to use their profits and assets for the public good.

On the other side of the Atlantic Ocean, similar events were taking place around the same time in the US. In 1968, the Ford Foundation initiated program related investments (PRI) to invest in social enterprise activities that involve the potential return of capital within an established time frame; examples include low interest student loans, social businesses that generate employment for the poor, affordable housing projects, etc.

With the introduction of the Riegle Community Development and Regulatory in 1994, CDFIs helped activate regional economies, resulting in the PRI market size to reach more than \$3 billion by 2000.

After the Rockefeller Foundation introduced the term impact investing in 2007, the financial crisis in 2008 further underscored the importance of new mechanisms to allow investments for creating healthier, more balanced societies. This ushered in a new wave of financial institutions and foundations including the Gates Foundation's involvement in impact investing, UBS' Fund of Funds (2011), Morgan Stanley's Impact Investment Services (2012), and Goldman Sachs' Social Impact Fund (2013). It was 2011 when the Rockefeller Foundation, GIIN, and JP Morgan began publishing an annual report on impact investing. The first cases of social impact bonds (SIBs) were implemented in 2010 in the UK and 2012 in the US. As a culmination of this trend, the Group of Eight (G8) Industrialized Nations decided to promote impact investing on a global scale in 2013.

The main driver for national governments to proactively promote impact investing lies in the fact that it serves as an effective and efficient tool to deliver social welfare programs as public finance shrinks over time.

From the private sector perspective, impact investing dovetails nicely with other global trends such as the introduction of SDGs in 2015 and emergence of the Paris Agreement in 2016.

Beyond the Netherlands, UK and US, impact investing has expanded to many countries including Germany, France, Belgium, Canada, India, China, Australia, Argentina, Paraguay, Uruguay, etc. The Impact Investing National Advisory Boards, initially set up at the request of the G8 initiative, have now been established in 15 countries⁴.

⁴ GSG website <http://gsgii.org/about-us/#aboutgsg>

1-2 The Global Market Size of Impact Investing

According to GIIN's Annual Impact Investor Survey in 2017⁵, the most comprehensive survey of its kind, the 209 survey respondents reported to collectively manage USD 114 billion in impact assets. The Global Social Impact Investment Steering Group (GSG) estimates the impact investing market to increase from US\$138 billion in 2015 to 307 billion in 2020⁶. These figures by GSG include impact assets not counted in the GIIN survey.

In terms of market expansion, actual investment disbursed totaling \$22.1 billion in 2016 increased by 17% to \$25.9 billion in 2017. Similarly, GSG estimates the annual market growth rate to be 13.7%.

Geographically, impact investing in India is noteworthy. Between 2010 and 2016, 485 investments totaling \$52 million were made in the sub-continent, according to a McKinsey report. Sector-wise, while 57% of Indian investments in 2010 focused on inclusive finance such as microfinance, this figure declined to 43% in 2016 making space for other sectors such as clean energy, education, agriculture, and healthcare.

Financial returns on impact investments vary greatly across projects and investor expectations, but taking the Indian case as an example, the average return was 10% among the 48 projects surveyed, with a huge range of -46% and 153%. The GIIN report, categorizing investments by financial instrument (equity vs. loans) and geography (developing vs. advanced economy), puts the expected financial return between 2.7% and 16.5%.

⁵ GIIN (2017) "Annual Impact Investor Survey" https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf

⁶ GSG (2015) "Global Impact Investing: Market Size and Forecast- From 2015 till 2020" http://gsgii.org/wp-content/uploads/2017/07/Impact-Investing_Executive-Summary.pdf

2 Impact Investing and ESG Investment

This chapter summarizes the current state of ESG investment and articulates its relationship with impact investing. ESG investment refers to investments that take in account of environmental, social, and governance factors. It has become a key theme both globally and domestically in Japan given the long-term risk of environmental degradation, myopic profit-orientation in the financial markets, large-scale corporate scandals, and increasing interest in inclusive business models that address social and environmental issues.

2-1 History of ESG Investment

The term ESG was first espoused by the UN in 2006. It should be distinguished from social responsible investments (SRI) and negative screening (divestment from alcohol, tobacco, weapons, etc.) that have drew attention from time to time in history such as the promotion of ethical investments by religious groups in the 1920s and anti-apartheid movement and boycotting the military industry in the 1960s. Rather, the origin of ESG should be traced back to 2005 when a seminal report was published stating that ESG-oriented investment does not go against the principles of fiduciary responsibilities. Therefore, the main difference from ethical screening is that ESG-oriented investment has an explicit link with profit maximization in the medium-long term.

According to research by the Global Sustainable Investment Alliance (GSIA), the market size of ESG is estimated at US\$ 22.89 trillion globally, with the top three geographies dominating the market: Europe \$12 trillion, US \$8.7 trillion, and Canada \$1 trillion. As a proportion of total assets invested, ESG investment constitutes about 53% in Europe and 26% globally.

Much diversity is observed in the criteria for ESG investment. A few common investment strategies are summarized in the table below.

Figure 1 ESG investment strategies⁷

Negative/exclusionary screening	Exclusion of certain companies and sectors based on ESG criteria
ESG integration	Explicit inclusion of ESG factors into financial analysis
Corporate engagement and shareholder action	Use of shareholder power to influence corporate behavior
Norms-based screening	Screening against minimum standards of business practice based on international norms
Positive/best-in-class screening	Investment in sectors and companies selected for positive ESG performance relative to industry peers
Sustainability themed investing	Investment in themes specifically related to sustainability, such as clean energy, green technology, sustainable agriculture, etc.
Impact/community investing	Targeted investments, typically made in private markets, aimed at solving social or environmental problems

Though in much smaller scale, ESG investment is expanding in Japan. According to research by the nonprofit Japan Sustainable Investment Forum, ESG investment was estimated at 56.2 trillion yen in 2016, a two-fold increase from the previous year. The same research discovered a 2.4 times expansion in 2017 to 136.6 trillion yen, indicating a consistent, high growth rate.

⁷ Global Sustainable Investment Alliance (2017) "Global Sustainable Investment Review 2016" Figure 3

2-2 Impact Investing and ESG Investment

Interest in impact investing among ESG investors is on the rise. Based on GSIA's research, the impact/community investing category within the GSIA definitions of sustainable investments was the fastest growing strategy between 2014 and 2016. GSIA defines this category in the following way: "Targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose".⁸

A recent trend among ESG investors is their heightened interest in actively addressing social and environmental challenges through their investments, rather than simply removing companies based on negative screening criteria. As an example of this trend, the following two principles are well aligned with impact investing. Both principles are high in transparency and accountability.

Figure 2 Examples of impact-focused financial principles

Principles for positive impact finance	Published in January 2017, as a result of a working group within the UNEP Finance Initiative, the Principles for Positive Impact Finance are a framework to help banks and investors adopt an impact-based approach, so they can step up their positive impact on the economy, society and the environment, and, more specifically, actively participate in bridging the financing gap for sustainable development.
Green and Social Bond Principles	Published by the International Capital Market Association in 2014, the Green Bond Principles are guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market. The Social Bond Principles were published in June 2017 to apply similar guidelines to the Social Bond market.

⁸ GSIA tallies data from different geographies, even though definitions vary from region to region.

3 Impact Investing Trends in Japan

3-1 Expectations towards the Impact Investing Sector in Japan

The market size of impact investing in Japan grew from approximately US\$170 million in 2014 to \$337 million in 2016.⁹ While major financial institutions and venture capital firms have been establishing impact investing funds, grant-making foundations and community foundations have also started to enter the space. Moreover, modeled after the UK case, the enactment of the dormant accounts utilization bill in December 2016 will channel a new source of funding for social enterprises and the impact investing sector in general.

While impact investing utilizes various avenues of funding, a particular type of a public-private partnership called social impact bonds has been gaining interest and its first case was implemented in 2017. Social impact bonds initially leverage private-sector money for implementation but those investors can be repaid by government funding based on outcomes achieved.

Japanese society faces major structural issues such as the world's fastest ageing demographic, stress on the healthcare and long-term care system, poverty among children, shrinking regional economies, and weakening of traditional communities. It's clear that the government-led resource reallocation model from the post-war economic growth period has its limit in addressing these social challenges; new mechanisms and solutions are needed that go beyond the boundaries of the public and private sectors. In this context, developing a new flow of money to social challenges is critical.

3-2 Demand Side

Three key trends can be observed among service providers (demand side of funding).

First, Japan has seen healthy growth in the number of nonprofit organizations especially in the period immediately following the devastating earthquake and tsunami in eastern Japan in 2011. As summarized below in the table, certified nonprofit organizations have quintupled in number since 2011.

Figure 3 Number of nonprofit entities

Nonprofit organizations	51,723
Certified nonprofit organizations	1,031
Public-interest associations and foundations	9,486
Cooperatives	42,512
Social welfare organizations	20,926
Education organizations	8,102

Sources: Cabinet Office, National Tax Authority

⁹ National Advisory Board 2016

The total economic value generated by nonprofit organizations was estimated at 23.8 trillion yen (4.8% of national GDP) in 2014.¹⁰ The number of nonprofits generating their own revenue has been on the rise, therefore financing options for such activities are also in demand.

Second, the number of social enterprises has been increasing. Social enterprises here do not refer to the above-described nonprofits but organizations that operate as for-profit companies.¹¹ The table below summarizes the market size of social enterprises in 2015. Definitions of social enterprises include factors such as their mission (social mission over profit) and dividend payout (less than 50% of profit gets paid out to investors and shareholders as dividends).

Figure 4 Overview of social enterprises in Japan

Number of social enterprises	205,000
Total economic value	16 trillion yen (3.3% of GDP)
Paid employees	5,776,000
Revenue	10.4 trillion yen

Remarkable achievement has been made by some social enterprises that have successfully become listed companies in the Tokyo Stock Exchange. For example, the company Litalico that supports disabled people find employment opportunities won the Nikkei Social Initiative Award in 2014, went public on the Tokyo Stock Exchange Mothers section in 2016, then upgraded to the TSE First Section in 2017. Its revenue hit US\$87 million, with a net profit of \$3 million, in the fiscal year ending March 2017.

Third, corporate engagement in social issues has been expanding. Japanese companies traditionally contribute to social issues through donations; corporate giving reached approximately US\$8 billion in 2015. But, particularly with the spreading of concepts such as creating shared value (CSV) and base of the pyramid (BOP), an increasing number of companies are aiming to generate medium-long term profit through business activities that address social challenges.

¹⁰ Ministry of Health, Labor, and Welfare 2010

¹¹ Cabinet Office 2015

3-3 Supply side

Funding comes from a variety of sources including individuals, companies, government, and foundations,

Individuals Individual giving constitutes about 50% of the entire charitable market in Japan; individual giving (US \$7.4 billion) outweighed corporate giving (US\$ 7.0 billion) in 2013. Given the precedent of charitable foundations entering and popularizing impact investing in Europe and North America, similar transitions can be expected from charitable individuals. Internet-based crowd-funding platforms have been expanding and attracting individual donors and investors. In 2016, the domestic crowd-funding market grew by 96.6% on annual basis and managed to raise a total of US\$745 million through new projects.¹²

Figure 5 Market size of crowd-funding platforms by type

Type	Amount raised through new projects
Donation	5
Investment	3
Pay-for-product	62
Loans	672
Equity	0.4

[Unit: US\$ million]

Crowdfunding shares similarities with impact investing in that they both need to have emotional appeal to investors. Nevertheless, it is important to note that some of the loan-based platforms that dominate the crowdfunding market attract investors with strong preference for high returns.

Figure 6 Examples of crowd-funding

Music Securities	An impact investing platform for individuals where investors can derive both financial and social returns. It has started to incorporate SDGs as part of its due diligence process.
Crowd Reality	An investment-type platform specializing in real estate. A nursery school project managed to raise US \$1.75 million in 2017.
Campfire	The largest pay-for-product platform in Japan. It has expanded its services to allow donations for social enterprises and additional financing options for organization that successfully fundraised on the platform

¹² Yano Economy Research Institute 2017

Similar to individual investors, NPO banks, citizen funds, and community foundations play an important role in impact investing. One example is the Mirai Bank established in the middle of the 90s that served the beginning of the impact investing sector in Japan. As the government and local residents take interest in the revitalization of regional economies, new financial products and mechanisms that help fund socially oriented projects are in demand.

Figure 7 Examples of NPO banks

Community Youth Bank momo	It pools investments from local people and gives out loans to social enterprises in local communities. It works closely with other local financial institutions to develop a positive flow of funding at the local level.
East Oumi Sanpo-yoshi Foundation	Established in 2017, the foundation was initially funded by \$30,000 in donations from local residents. It invests in social enterprises engaged in tackling local challenges.

Private financial institutions

<Loans>

Traditionally, financial institutions have refused to provide financing to or expected higher interest rates from certain types of companies that bring negative social or environmental outcomes. Ever since 2013, the "Year of Corporate Social Responsibility", Japanese banks and credit unions have been engaged in CSR activities. They have also started to actively offer financial products involving social businesses and nonprofits. Examples of this trend include loans to nonprofit organizations by financial institutions across the country, as well as exemplary cases of financing by signatories of the "Principles for Financial Action for the 21st Century (PFA21)" adopted in 2011.

<Equity>

Among the various kinds of investors, asset owners such as pension funds have the greatest influence on financial markets. Among the pension funds, the largest fund in the world - Japan's Government Pension Investment Fund (GPIF) with over 160 trillion yen in total assets - became a signatory of the Principles for Responsible Investment in September 2015. This move immediately elevated interests in ESG investment among the financial institutions managing GPIF's assets. In January 2017, GPIF further commented, "addressing social challenges generates both business and investment opportunities". Apart from GPIF, certain life insurance companies have also taken concrete steps.

Figure 8 Examples of asset owners

Sumitomo Life Insurance Company	The company invests in a microfinance fund targeting ASEAN countries
Dai-ichi Life Insurance Company	Following on its active involvement in ESG investment, the company has started to engage in impact investing. It has investments in two domestic start-ups as of October 2017.

Asset management companies targeting individual investors are also focusing on impact-oriented products as their competitive advantage.

Figure 9 Examples of asset managers

Commons Asset Management	Established in 2007, Commons makes long-term investments in listed Japanese companies and pays attention to their non-financial information. Every year Commons donates 1% of profits to social entrepreneurs in Japan as part of its SEEDCap program.
Kamakura Investment Management	Founded in 2008, Kamakura manages a trust fund that invests in socially good companies; 3-4% of its portfolio targets social enterprises.
BlackRock Japan	Since 2015, Blackrock offers financial products featuring listed companies that address social challenges.

Investing in unlisted companies, some Japanese venture capital funds also take social impact into account.

Figure 10 Examples of venture capital firms

Mistletoe	Established in 2013, Mistletoe invests in starts-ups and funds addressing social issues
Future Venture Capital	With an investment balance of US\$17.3 million (as of Sep 2017), the VC firm invests in 13 funds related to revitalizing regional economies.

Governmental financial institutions Given the fact they were founded for public policy purposes, governmental financial institutions are inherently engaged in financing with social impact. Below are some examples notably aligned with impact investing.

Figure 11 Examples of governmental financial institutions

Japan International Cooperation Agency (JICA)	JICA invests in private sector initiatives in developing countries.
Japan Finance Corporation (JFC)	JFC invests in social businesses and disseminates related information.
Development Bank of Japan (DBJ)	DBJ introduced a certification loan program in 2014 including environmental ratings, business continuity management, employee health management, and green buildings.

Private Foundations Similar to role that private foundations in Europe and North America played in the development of the impact investing markets in their respective geographies, certain foundations in Japan are committing resources to push the sector forward.

Figure 12 Examples of private foundations

Japan Social Impact Investment Foundation	Established in 2017 by the Nippon Foundation, SIIF's mission is to nurture a social impact investment ecosystem. The foundation co-finances pilot projects, supports intermediaries, and proposes policy recommendations.
Sasakawa Peace Foundation	In December 2017, the Sasakawa Peace Foundation launched Asia's first impact investment fund specifically aimed at the empowerment of women. The fund is expected to grow from the initial US\$10 million to \$100 million over the next few years.

3-4 Intermediaries

An encouraging trend has also been observed in the development of intermediary organizations involved in impact investing, ranging from financial intermediaries, overall advisory, to impact measurement.

Figure 13 Examples of intermediaries

K-three	A consulting firm with expertise in impact investing and impact measurement. In 2017, the company contributed to formulating a social impact bond involving colon cancer prevention in Hachioji
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A seminal law for the Japanese impact investing sector - utilization of dormant account funds for social causes - was enacted in December 2016. Subsequently, in May 2017, the Cabinet Office set up a council specifically for the utilization of dormant account funds. In September 2017, the council published an interim report on some of the key issues such as the need for an optimal governance structure for the agency responsible for fund distribution and incorporating innovative methodologies from the private sector.

Chapter 2: The Japanese Impact Investing Market

1 Estimating the Market Size

1-1 Research Perspective

Through the estimation of the Japanese impact investing market size, this research aims to clarify the similarities and differences vis-à-vis other similar types of investing and identify issues and potential of impact investing.

1-2 Comparing against the 2016 Research

The 2016 market research used two inclusion criteria: 1. Investors' expectation for social, environmental impact; 2. Investors' expectation for financial returns. The second criterion is relatively straightforward and helps exclude grants and subsidies that are void of repayment expectations. The first criterion, however, is more subjective and challenging to verify. Also, while the 2016 research took the intent of social impact from both the perspectives of investors and investees into account, the 2017 research focused on the investors' point of view.

The 2017 research built on this methodology and strengthened the first criterion by reviewing any impact measurement that is conducted to assess the intended social impact. For this, definitions made public by the Social Impact Measurement Initiatives were used. In this way, the relatively criterion has become more objective in the 2017 research.

As for investments made to government institutions, the research excluded them following the practice from the previous year.

② Selection Process of Impact Investing Cases

This research used the following definitions related to impact investing.

Social impact	Inclusive of both short-term and long-term, social and environmental changes or effects as a result of specific projects or activities
(Social) impact measurement	To understand social impact through quantitative and qualitative approaches and make a value judgment of specific projects or activities
(Social) impact investing	Investments with both social impact and financial returns. In this report, all forms of financial transactions with economic returns such as equity and bond investment, loans, lease, etc. are considered investments. It excludes donations and grants.

Sources: SIMI & NAB

Furthermore, the intention of impact investing is assessed based on two factors:

A. Restricted use of funding towards social and environmental businesses/ projects

Whether there is a clear link between investment and use of funding, such as funding to build and operate hospitals or daycare centers, funding to build and operate renewable energy plants, funding for microfinance institutions.

B. Considerations of social and environmental outcomes in the investment decision making process

This applies to how the investment contributes to addressing social issues, not about avoiding social and environmental risks.

In this report, impact investing is defined as those fulfilling both A and B above, as well as measuring social and environmental outcomes.

Figure 14 Conceptual diagram of impact investing



3 Research Scope for Market Estimation

The market estimation research behind this report was based on surveys, interviews, and literature review of financial institutions involved in impact investing.

This methodology took in account of GIIN's Annual Impact Investor Survey that covers key investors worldwide such as asset managers, foundation, banks, development finance institutions, family offices, pension funds, and insurance companies. But, it's important to note that GIIN's survey is restricted to investors committing more than US\$100,000 and engaged in at least 5 investments. Based on these criteria, 209 investors were included in the 2017 annual survey.

This research casted the initial net wide and started with an initial sample that included Japanese domestic investors that have made public statements such as signatories of PRI, Principles for Financial Action for the 21st Century (PFA21), etc.

Figure 15 Research sample

Selection factors (some overlapping)	Type of organization	Number
<ul style="list-style-type: none"> ● Signatory of PRI ● Signatory of PFA21 ● Participation in research by Japan Sustainable Investment Forum ● Participation in Social Impact Measurement Initiative ● Membership in the Venture Capital Association and involvement in regional development projects ● Participation in the 2016 research ● Other relevant organizations 	Banks & credit unions	157
	Insurance	31
	Securities	5
	Asset management firms	44
	Private equity & VC firms	17
	Lease & non-bank institutions	60
	Other organizations	49
	Pension funds	6
	Listed companies	7
	Local government	2
	Governmental financial institutions	11
	Total	389

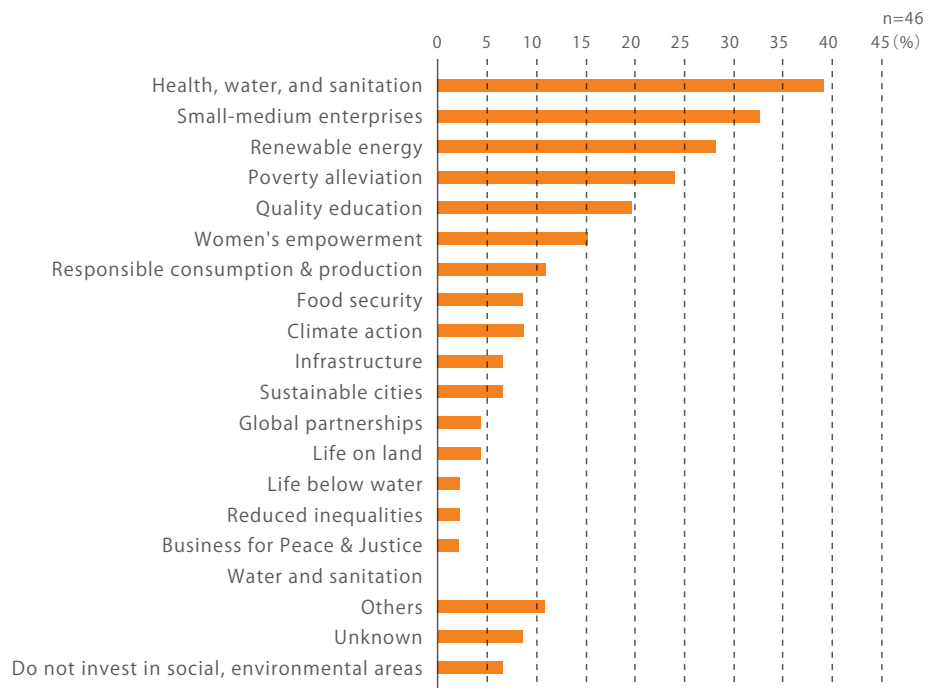
4 Findings from Market Estimation

4-1 Overview

Out of the 389 sampled, 46 organizations completed the survey, with a 12% response rate. Apart from the surveys, interviews and desk-based research were conducted for the market size estimation.

The survey asked respondents to indicate the top three SDGs that they contribute to through their investments. The findings revealed that the top social issues covered "health & WASH", "small-medium enterprises", and "poverty alleviation", while the "renewable energy" was the top environment issue.

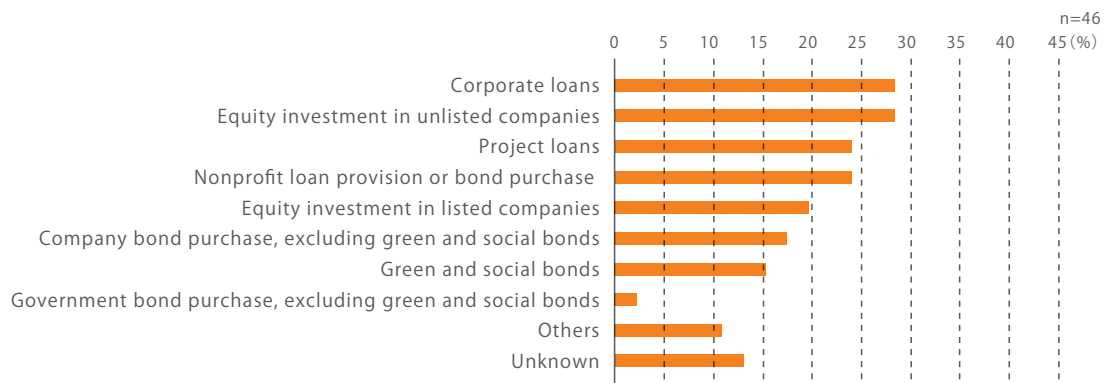
Figure 16 SDGs addressed through impact investing (Multiple responses, up to 3)



Source: SIF survey

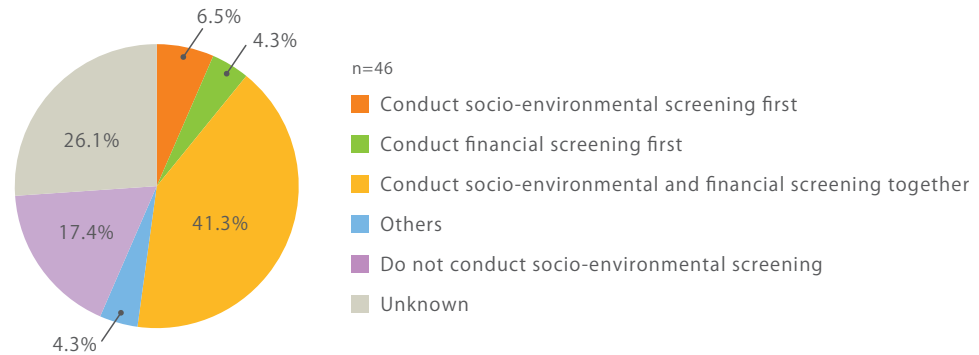
Moreover, the findings on the respondents' top three investment vehicles were similarly varied.

Figure 17 Investment vehicles (Multiple responses, up to 3)



In terms of the practice of screening for social and environmental aspects, 56% of investors responded in the affirmative, while the remainder (43%) indicated either they do not screen or are uncertain.

Figure 18 Screening for social, environmental, and financial aspects



4-2 Market size estimation findings

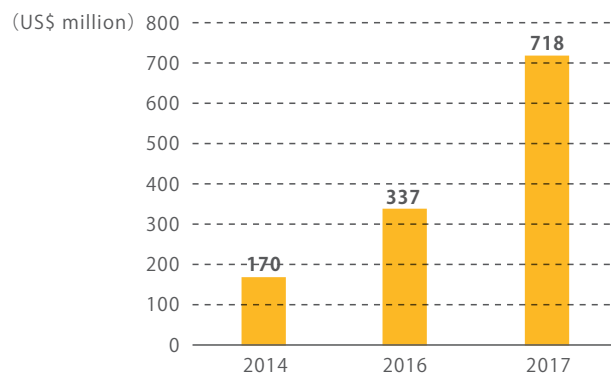
Based on the survey results, interviews, and desk-based research, an estimated investment balance of US\$ 718 million was allocated to impact investing (i.e. investment with restricted use for socio-environmental purposes and with impact measurement)¹³

The target areas of the investments varied greatly as summarized below.

Figure 19 Examples of impact investing

Example of impact investing	<ul style="list-style-type: none"> ● Social enterprises or nonprofits ● Renewable energy ● Start-ups with high potential for growth and social impact ● Social impact bonds ● Green bonds and microfinance fund bonds ● Overseas social enterprises
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Figure 20 Total impact investing balance in Japan



¹³ Some governmental financial institutions could not disclose their investment balance. Of the US \$718 million, \$179 million was actual investment disbursed in the most recent fiscal year, while the remaining \$539 million was the balance. These figures are included for consistency sake from 2016 reporting.

The 2017 figure is equivalent to 2.1 times that of 2016. The two-fold increase can be attributed to three key factors: 1) the entrance of new market players; 2) the additional capital commitments by existing impacting investors; 3) expansion in the research scope.

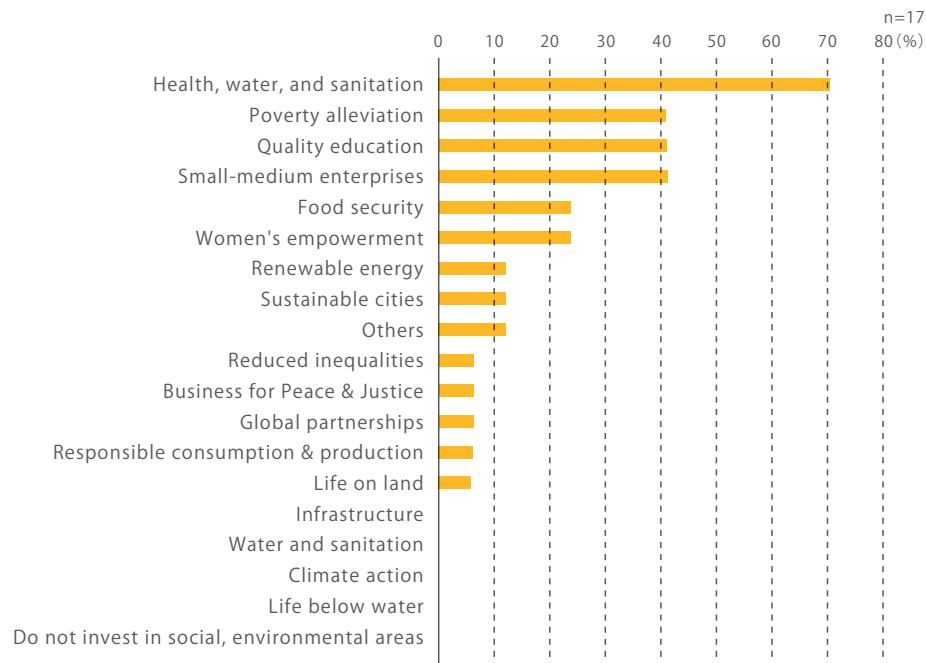
The following table summarizes the impact investors who contributed to the estimated investment balance. They are either investors that specialize in impact investing or investors that engage in impact investing among other traditional investments. Many of the newly entered players in 2017 belong to the latter, e.g. Shinsei Corporate Investment, Digisearch & Advertising, SMBC. Some investors such as Gojo & Co, Kamakura Investment Management, Kibow Foundation, Mitsubishi Corporation Disaster Relief Foundation, and JICA already included in the 2016 research increased their investment balances.

Figure 21 Impact investors confirmed through the research

Type	Organization name	Examples of impact investing
Governmental financial institutions	Japan Finance Corporation (JFC)	Loans to social businesses
	Japan International Cooperation Agency (JICA)	ASEAN women's empowerment fund, off-grid solar projects, etc.
Asset owners	Sophia University	Green bond fund, microfinance fund, global sustainability fund
Investment trusts	Kamakura Investment Management	Unlisted social enterprises
Securities firms	Daiwa Securities	Daiwa microfinance fund
Major banks	Sumitomo Mitsui Banking Corporation	Social impact bond (SIB) in Kobe City
Regional financial institutions	Seibu Shinkin Bank	Loans to nonprofit organizations
Corporations or corporate foundations	Mitsubishi Corporation Disaster Relief Foundation	Business related to the recovery efforts in northeast Japan
	Benesse Holdings	Benesse Social Investment Facility (investing in education start-ups in India)
Venture capital firms	Digisearch & Advertising	Social impact bond (SIB) in Hachioji City
	Shinsei Corporate Investment	Impact investing fund for child-rearing support ventures
Private foundations	Japan Social Impact Investment Foundation (SIIF)	SIBs in Kobe and Hachioji (including fund from Mizuho Bank through SIIF)
Organizations specialized in impact investing	Gojo & Company	Microfinance institutions in Asia
	Tokyo CPB (Community Power Bank)	Loans to nonprofit organizations
	Women Citizen Community Bank	Loans to nonprofit organizations
	Community youth bank momo	Loans to nonprofit organizations
	Moyai Bank Fukuoka	Loans to nonprofit organizations
	Kyoueki Investment Fund Japan	Unlisted social enterprises and loans to nonprofit organizations
	ARUN LLC	Unlisted social enterprises in Asia
	Kibow Foundation	Unlisted social enterprises
	Social Investment Partners	Unlisted social enterprises and nonprofits through the Japan Venture Philanthropy Foundation
	MAKOTO	Unlisted social enterprises
	PLUS SOCIAL	Loans to nonprofit organizations
Entrepreneurship Support Program for Refugee Empowerment	Loans specifically for refugee entrepreneurs	

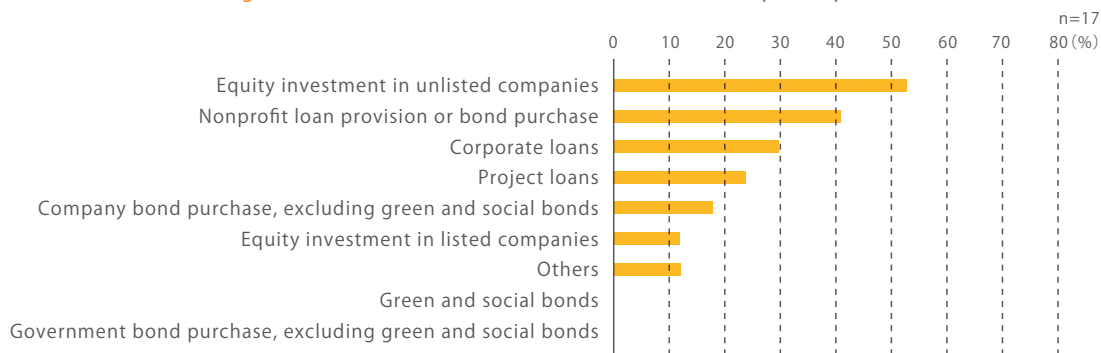
Of the above investors, 17 organizations specified their investment areas as below. It is interesting to note that, compared to Figure 16 above representing overall investments, the renewable energy figures drop from 30% to slightly above 10%.

Figure 22 Actual investment areas (Multiple responses)



In terms of investment vehicles, both corporate loans and equity stake in unlisted companies were the highest in the overall investments above in Figure 17, but equity investments in unlisted companies constituted over 50% in the survey among 17 impact investors.

Figure 23 Actual investment vehicles used (Multiple responses)



④-3 Investments with restricted socio-environmental use but do not require impact measurement

Those investments that restrict the use of funding for socio-environmental purposes, but do not require impact measurement, can be considered "pseudo impact investing". Cases that fall into this category include: loans to wind power plants that do not expect evaluation of carbon emission reductions; loans to hospitals that do not measure prevention effects; and funding for rural development that do not set outcome indicators.

Namely, financial institutions such as the Tottori Bank and Mizuho Financial Group are engaged in financing renewable energy projects, properties with environmental considerations, and rural development. The research behind this report did not delve into these investments but the investment balance in this category could be more than US\$10 billion.

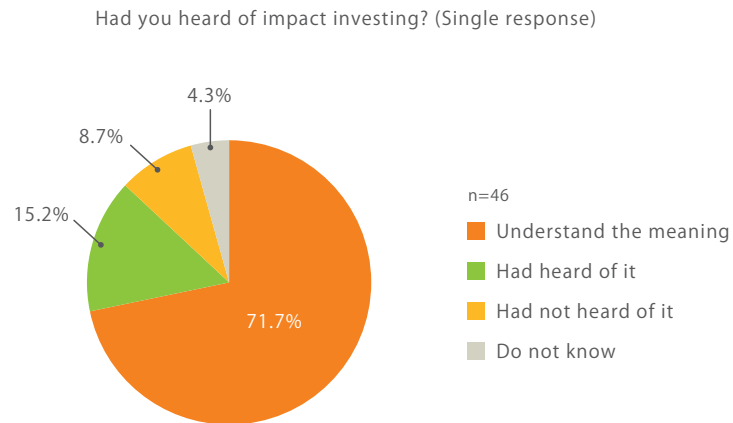
Figure 24 Investment cases in socio-environmental areas

Tottori Bank	Rural development (LP investment)
Mizuho Financial Group	Loans to environmental projects

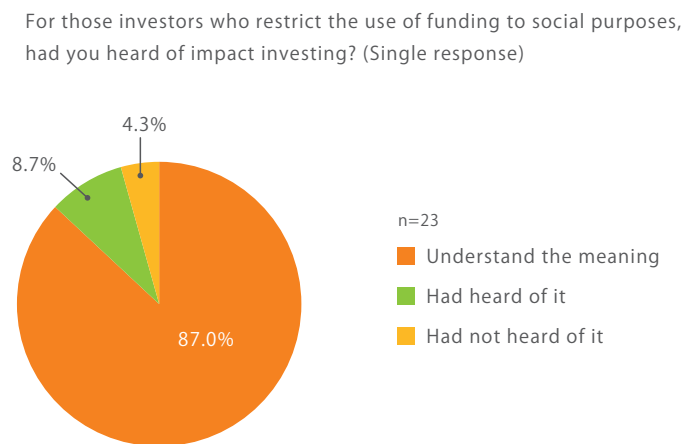
④-4 Awareness Level of Impact Investing

The surveys also included questions targeting awareness level of impact investing. In response to the question of whether or not respondents know the term "impact investing", 71.7% indicated they understand the meaning. If we include those who have heard of the term, the proportion rises to 90%. This is not surprising given the respondents' involvement in the sector.

Figure 25 Awareness of the term "impact investing"



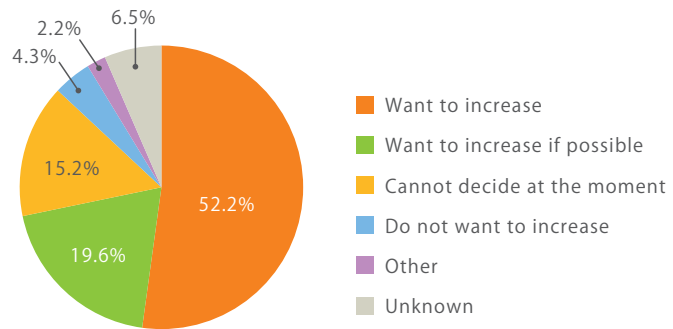
When limiting the sample to those investors who restrict the use of funding to social purposes, the proportion of respondents with an understanding the term reaches 87%.



The survey also asked questions around the respondents' future plans including conditions required to expand their commitments. To the question of whether the respondent would increase their investments, 71.8% responded either "want to increase" or "want to increase if possible". This majority included a wide range of institutions such as governmental financiers, pension funds, credit unions, lease firms, and listed companies. On the other hand, approximately 20% of respondents selected "cannot decide at the moment" or "do not want to increase" to this question. This minority included venture capitalists, credit unions, and labor banks.

Figure 26 Future plans (overall)

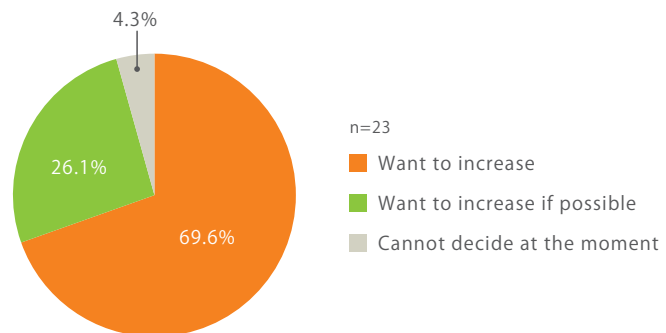
Do you want to be engaged in more impact investing? (Single response)



When limiting the sample to those investors who restrict the use of funding to social purposes, the proportion of respondents who want to increase or want to increase if possible reached 95.7%. Linking the findings from above with regards to awareness levels, this segment of investors has the potential of becoming impact investors in the future.

Figure 27 Future plans (only to those with restricted investments)

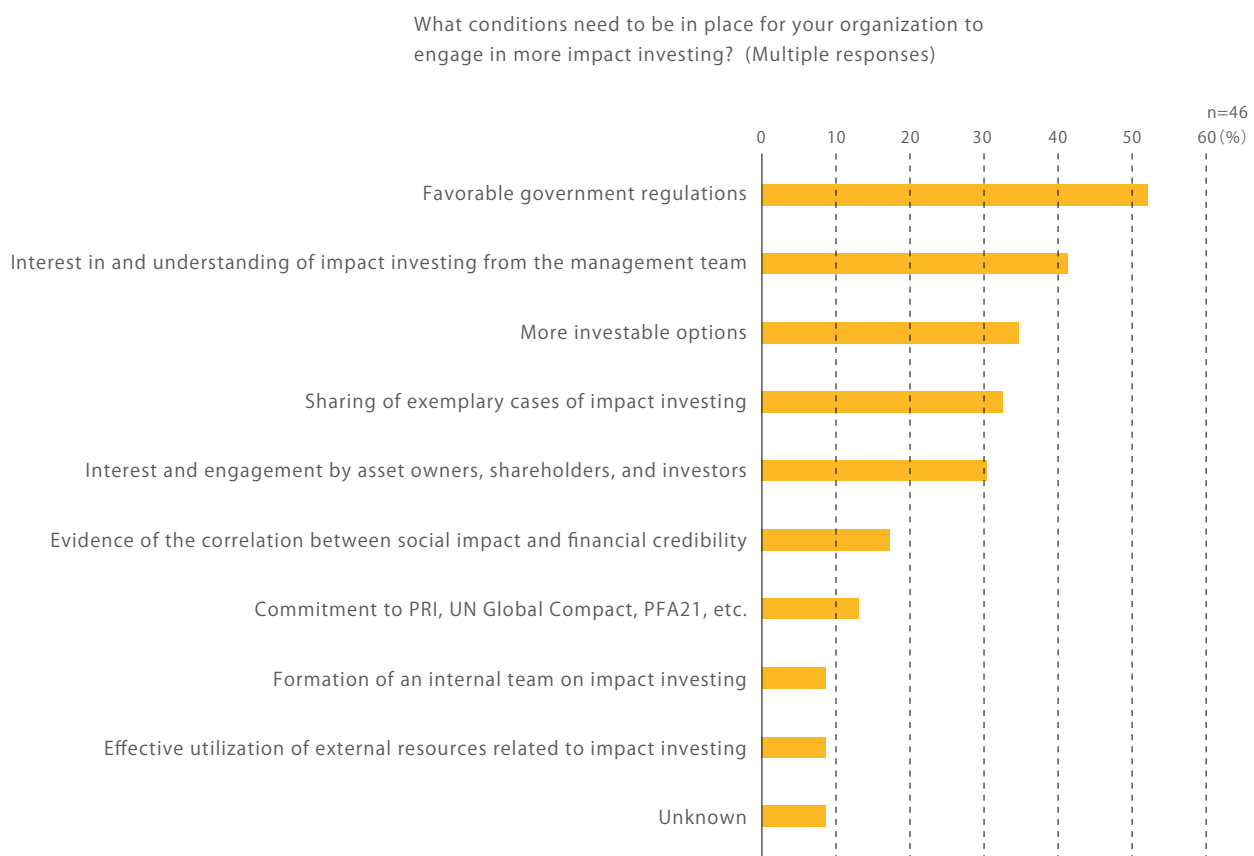
For those investors who restrict the use of funding to social purposes, do you want to be engaged in more impact investing? (Single response)



Furthermore, the survey asked respondents on the conditions to engage in more impact investing, and to this question, more than a half of the respondents selected the option "favorable government regulations". The second highest answer, with 41.3%, was "interest in and understanding of impact investing from the management team". A similar proportion of 39% was observed even in those organizations that have "a management team committed to addressing social issues". This points to the challenges of spreading impact investing through bottom-up approaches. In addition, the need for "interest and engagement by asset owners" was indicated by 30% of respondents, demonstrating the important role of asset owners like shareholders and investors.

A few respondents indicated the need for "more investable options", "sharing of exemplary cases of impact investing", and "evidence of the correlation between social impact and financial credibility".

Figure 28 Conditions to be engaged in more impact investing



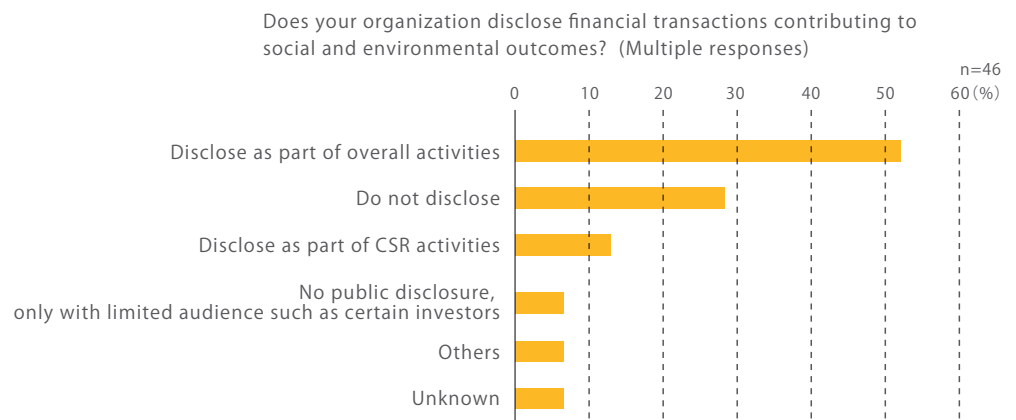
4-6 Disclosing financial activities for social and environmental causes

The survey also included a question on organizations' disclosure of their financial transactions contributing to social and environmental outcomes. To this question, approximately 50% responded indicating that they "disclose as part of overall activities".

In terms of the media channels through which the information is disclosed, most respondents mentioned disclosure journals, CSR reports, and CSR websites. Some organizations have taken the effort to create a special web page on impact investing to give an overview and explain why they started impact investing in the first place.

On the other hand, about 30% of respondents replied that they "do not disclose". Of them, 70% of respondents their management team are committed to addressing the social and environmental issues.

Figure 29 Status of Information Disclosure



Therefore, one suggested approach to improve visibility would be to create a website showcasing examples of impact investing and include comments to demonstrate the management team's commitment.

5 Case Studies

5-1 Utilization of Social Impact Bond in Kobe City for the Prevention of Chronic Diabetic Kidney Diseases

5-1-1 Investment Overview Below is an impact investing case from Kobe City in which Sumitomo Mitsui Banking Corporation, the Japan Social Impact Investment Foundation (SIIF), and individual investors participated in a social impact bond to prevent diabetic kidney diseases.

Project name	Utilization of Social Impact Bond (SIB) in Kobe City for the Prevention of Chronic Diabetic Kidney Diseases
Project period	Three-year period from July 2017 to March 2020 <ul style="list-style-type: none"> • July 2017 - March 2018: Implementation of health guidance • April 2018 - March 2020: Evaluation
Investment scale	\$300,000
Investors	Sumitomo Mitsui Banking Corporation (SMBC) Individual investors introduced by SMBC Japan Social Impact Investment Foundation (SIIF)
Investee/ Project implementer	DPP Health Partners Co. Ltd.
Other stakeholders	Kobe City SMBC Trust Bank Institute for Future Engineering
Expected social impact	Increase in the quality of life of citizens Optimization of treatment costs
Key takeaways	<ul style="list-style-type: none"> • The importance of intermediaries in project formulation: Facilitation and consensus-building by intermediaries are crucial to align diverse interests and perspectives of stakeholders. • Structural innovation to entice private sector funding: Through the use of an investment trust, the deal leveraged a scheme to cater to different levels of risk appetite.

5-1-2 (1) Investors**Project detail** 【Sumitomo Mitsui Banking Corporation】

- ① Founding: 1876
- ② Capital: US 17.7 billion
- ③ Shareholders: 100% owned by Sumitomo Mitsui Financial Group, Inc.
- ④ Main activities: Deposit, lending, securities trading, investment, foreign exchange, etc.
- ⑤ Other relevant information: This project was formulated and led primarily by the bank's "Growth Industry Cluster". Individual investors engaged in this project were solicited through the bank's network.

【Japan Social Impact Investment Foundation】

- ① Founding: Established in March 2017 by the Nippon Foundation
- ② Basic asset: US\$ 30,000
- ④ Main activities: Through the development and implementation of impact investing projects with Japanese characteristics, the foundation aims to mobilize private sector funding to public-interest causes, thereby contributing to the optimization and expansion of the overall social sector.
- ⑤ Other relevant information: The foundation played a pivotal role in this project as both an investor and an intermediary.

(2) Investee / Service Provider

【DPP Heath Partners Co. Ltd】

- ① Founding: December 2010
- ② Capital: US\$ 470,000
- ③ Shareholders: Data Horizon Co Ltd and others
- ④ Key activities: The company delivers disease management services especially for chronic illnesses, with an overall aim to improve the quality of life of clients and reduction in medical costs.

(3) Project details

① Background

Japan is home to an estimated 320,000 artificial dialysis patients as of December 2015. Once dialysis treatment begins, patients' quality of life tends to deteriorate, while medical costs amount to US\$50,000-60,000 per person per year. At the population level, approximately US\$15 billion is paid in medical expenses for dialysis treatment, which represents 3.75% of the entire US\$400 billion out-of-pocket medical costs. This concerning situation has triggered the government to take action. In particular, since preventing diabetic kidney failures is considered a critical intervention point, both national and local governments are implementing strategies to effectively manage kidney diseases. In this context, Kobe City has been working on this issue including measures to promote consultation for high-risk individuals such as those who have not had a check-up and who have dropped out of treatment.

② Project formulation

This project is one of two concepts selected in 2016 by the Ministry of Economy, Trade, and Industry's initiative to promote business opportunities in the areas of health and aging particularly through public-private partnerships such as SIB. Kobe City decided to implement this concept using SIB to prevent the exacerbation of diabetic kidney diseases. The project delivers a comprehensive set of health guidance including health check-ups, medication guidance, and food in-take, in order to improve their lifestyle and prevent deterioration of diseases.

③ Stakeholders

The diagram below describes the project structure and stakeholders' interests.

Figure 30 Project structure

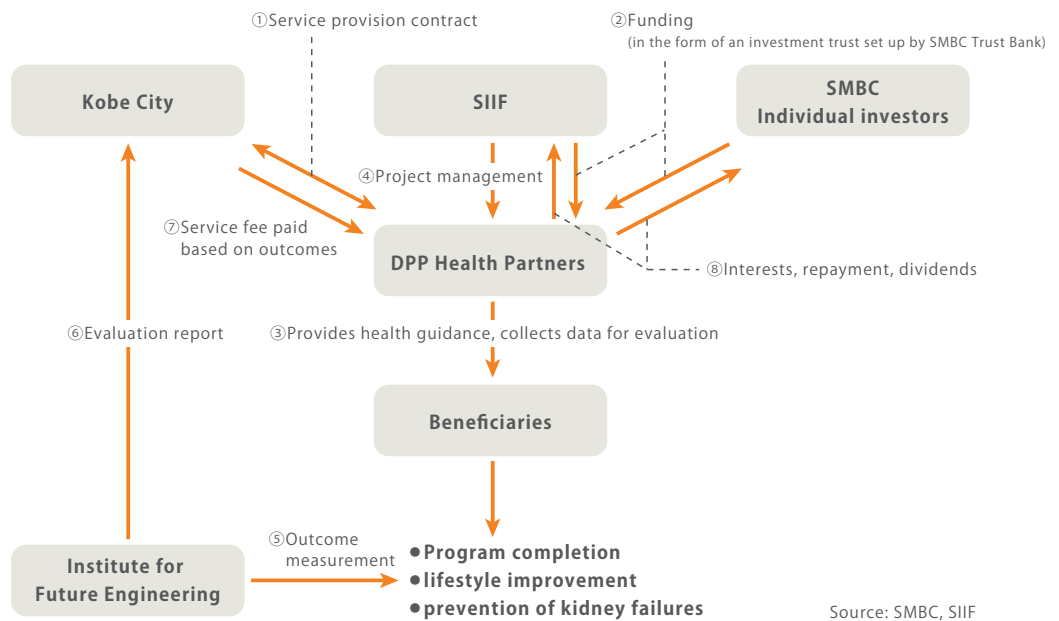


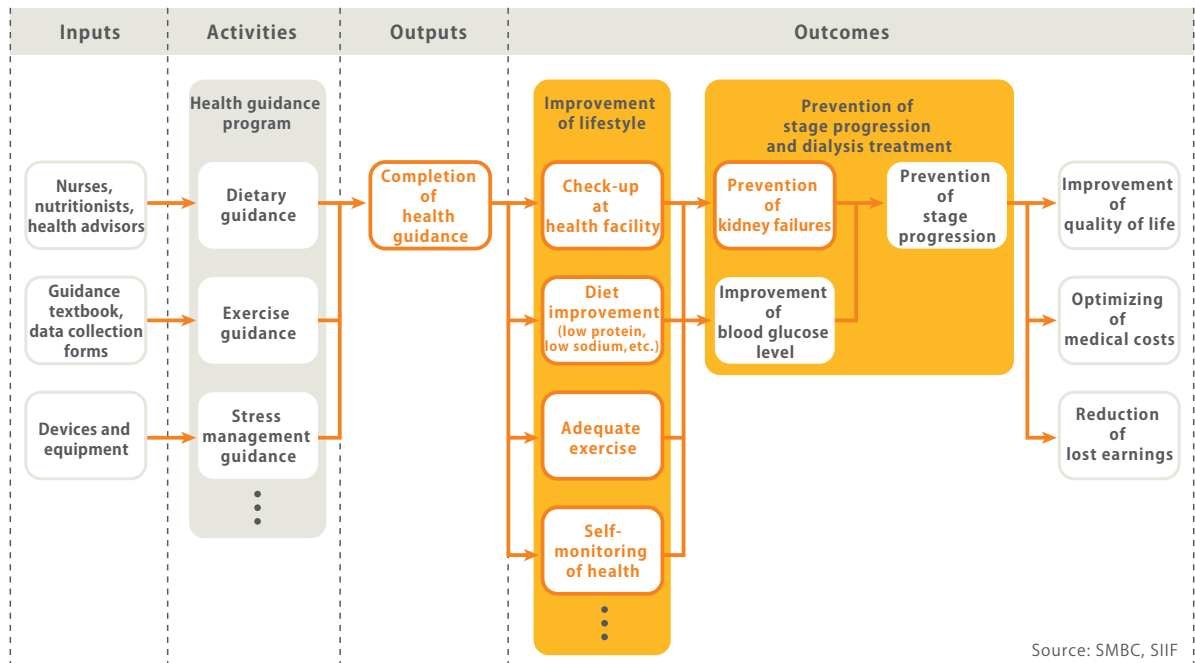
Figure 31 Stakeholders and their interests

Name	Role	Interests and expectations in the project
SMBC	Investor	<ul style="list-style-type: none"> Contribute to increasing social and economic value by providing financial know-how to a sector tackling social issues. Contribute to public-private partnerships that are critical to building a sustainable society and solving complex issues
SIIF	Investor	Provide risk capital to promote impact investing in Japan
	Intermediar	Facilitate stakeholder alignment to promote impact investing in Japan
Individual investors	Investor	<ul style="list-style-type: none"> Contribute to solving social issues through investments Gain financial returns
DPP Health Partners	Service provide	Contribute to solving social issues through service delivery
Kobe City	Government	<ul style="list-style-type: none"> Improve the quality of life of residents Reduce out-of-pocket medical costs for dialysis
Institute for Future Engineering	Evaluator	Contribute to solving social issues through program evaluation

④ Expected impact

As described in the logic model below, the expected impact of this project includes improvement of quality of life, optimization of medical costs, and reduction of lost earnings. Payment is linked to specific output-level and outcome-level KPIs. For example, program completion rates and lifestyle improvement rates of participants are set as intermediary outcome indicators, while prevention rate of kidney failures as final outcome indicators.

Figure 32 Logic model



⑤ Risk, Return, and Impact

Kobe City budgeted a total of \$340,000 in maximum payment to this project. This figure consists of \$262,000 to the service provider for health guidance and an additional \$78,000 for SIB management fee and investor returns if outcomes are achieved. Regardless of the achievement level of outcomes, 40% of the service provider fee (40% x \$262,000) is paid out as a guarantee at the completion of the first year. While SIBs can be designed so that payment is strictly linked to outcome achievements, this project is structured with a guarantee given that the health guidance services are assumed to yield a certain level of results. The remaining 60% of the service provider fee will be paid out in 2018 based on evaluation findings with respect to the intermediate outcome indicators of program complete rates and lifestyle improvement rates. Finally, the performance-based incentive of \$78,000 will be disbursed in 2019, two years after project completion, contingent on the evaluation findings regarding the prevention rates of kidney failures.

(4) Key takeaways

① Importance of intermediaries in project formulation

If the government wishes to utilize Pay For Success and leverage private sector funding, many factors need to be considered including outcome measures, evaluation methodology, payment terms, fundraising, etc. This project required a total of about 12 months from initial discussions to contract signing (including the service provision contract and investment fund-related financial terms). In retrospect, the intermediary SIIF explains that, in order to seal the deal, the key lied in aligning the diverse interests and perspectives among the stakeholders. This importance of the intermediary in project formulation has been confirmed in interviews with stakeholders. In describing the intermediary, an SMBC representative used the analogy of a "translator" among stakeholders who speak different languages. SIBs naturally involve various stakeholders including the government, service providers, financial institutions, evaluators, etc. thus the role of the intermediary to facilitate and build consensus is indispensable. Another factor worth noting in this project is the fact that the intermediary SIIF also served as an investor; this dual role strengthened its influence over the project.

② Structural innovation to entice private sector funding

This project involved so-called mainstream investors such as SMBC and individual investors. For SMBC, participating in a SIB project presented an opportunity to contribute to balancing social and economic value and building a sustainable society. The project also made sense as the bank had been seeking financial products with social purposes. Given that the bank was aware of wealthy individuals interested in social issues, SMBC was able to find individual investors to invest in the SIB project.

In soliciting investments from mainstream financial players, however, social purpose alone has its limitations. Guaranteeing financial returns is necessary. As such, this project utilized an investment trust and prioritized its payout to investors based on risk appetite.

Specifically, DPP Health Partners fundraised in the following way: it placed its right to claim the service provision fee from Kobe City in SMBC Trust Bank's investment trust and sold its beneficiary rights to investors. The usage of the service provision fee rights is essentially a bankruptcy remote structure, i.e. even if the service provider goes bankrupt, the right to claim is guaranteed thus protecting investors.

The usage of beneficiary rights is another trick in this deal: it allows for repayment and dividends to be prioritized based on risk appetite. This mechanism caters to investors' different levels of risk appetite, ranging from low-risk-low-return to high-risk-high-return. In this project, the nonprofit entity SIIF opted to take on the higher risk portion. By providing this risk capital, SIIF intended to mobilize private sector funding with a lower risk appetite. As a result of such a structuring of an investment trust and return prioritization, this SIB project succeeded in securing commitments from mainstream investors.

(5) Potential for replication

Two key points are worth highlighting for the purposes of replication.

① Replication by local government bodies

Kobe City's desire to engage in an SIB is driven by its larger aim to leverage private funds and optimize the performance of government services. Given the widespread challenges of rapidly ageing demographics and shrinking tax revenue in Japan, many local governments will likely follow Kobe's footsteps.

In replicating SIBs, however, Kobe City flags the long project formulation period as a potential bottleneck. City officials explain that gaining consensus on outcome indicators and evaluation methodologies among various stakeholders can be challenging especially if SIBs cover various sectors.

To overcome this bottleneck, Kobe City stresses the importance of intermediaries with expertise in SIBs and suggests stakeholders to stay flexible in solving problems along the way.

As such, in the short term it is crucial for the government to understand and support intermediary-led project formulation to further promote SIBs. A prime example of this is the Ministry of Health, Labor, and Welfare's initiative to support the formulation of SIB projects in the areas of health and child welfare.

In the medium-long term, it is important for the government to lead the development of guidelines for designing outcome indicators and evaluation methods in various sectors. Since designing such parameters requires a high level of expertise, it would be inefficient for different local governments to undergo the design process for similar social issues. For instance, social issues such as diabetic kidney diseases and cancer examination - both widespread across the country and conducive for SIB intervention - should be prioritized.

In addition to these technical points, financial support is a key factor. For Kobe City, getting budget approval for the performance-based incentive component, beyond the service provision fee, was a difficult process. This would be even more challenging for smaller city and regional governments with limited budgets.

For this, the UK Cabinet Office's Social Outcomes Fund is an exemplary solution in which the central government subsidizes a portion of the incentives. According to a SIIF representative, such contribution by the central government makes economic sense as benefits from successful Pay For Success project go beyond municipal boundaries and, in practice, have broader impact.

② Scale

In 2015, social security expenses in Japan increased by 2.4% in annual terms to US\$ 1.15 trillion. To manage its progressive expansion requires private sector funds. The Kobe SIB case demonstrates that mainstream investors can be successfully engaged if enticed through thoughtful structuring.

To further mobilize private sector money, it is not only important to increase the number of SIB cases, but also expand the scale and impact of each project. Extending project timeframes from a single year to multiple years and covering multiple geographies through a single project are some concrete ways to achieve scale.

Another example that the authors of this report recommend is the combination of SIBs and private finance initiatives (PFIs). While they are both forms of public-private partnerships, PFIs often involve "hardware" - infrastructure projects such as airports, water pipes, etc. - and SIBs focus on "software" projects such as health, education, etc. As the number of public-private partnerships increase, combining these two modalities holds potential in attracting greater private sector funding into social issues.

5-2 Utilization of a Social Impact Bond to support Community Ventures in East Oumi City

Below is an impact investing case from East Oumi City in Shiga Prefecture in which a social impact bond was set up to support community ventures that tackle social issues. In this project, the intermediary issued privately placed bonds to fundraise from individual investors and financial institutions.

5-2-1 Investment Overview

Project name	Utilization of a Social Impact Bond to support Community Ventures in East Oumi City
Project period	2016
Investment scale	US\$20,000 (US\$5,000 x 4 projects)
Investors	2 organizations and 71 individuals
Investees/ project implementers	<ul style="list-style-type: none"> •Gamo Dream Factory Council •Kumino Factory •Ainomachi Eco Club •Aito Welfare Mall
Other stakeholders	<ul style="list-style-type: none"> •East Oumi City •Plus Social Investment •Kyoto Foundation for Positive Social Change •Machizukuri Net Higashi Oumi
Expected social impact	<ul style="list-style-type: none"> •Revitalization of the local economy through mobilizing citizen funding to address social issues •Raising public awareness of government services •Optimization of government grants through performance-based payment
Key takeaways	<ul style="list-style-type: none"> •Positive dynamic created through local financing: In this project, the fact that the service providers and the investors belong to the same community resulted in a positive dynamic and contributed to smooth implementation. The service providers felt obliged and motivated to succeed under close monitoring, while the investors were invested in addressing local needs. •Optimization of performance through results-based financing: Transitioning from a grant modality to performance-based payment means that the government is less involved in managing expenditure of grantees and more focused on supporting service providers to deliver results in partnership with intermediaries. Therefore, this served as an opportunity to make government services more effective and efficient.

5-2-2 (1) Investors and intermediaries:
Project details

【Investors: Local organizations and residents】

- ① Investor breakdown: Two organizations and 71 individuals
- ② Investment amount: \$5,000 per project consisting of 25 shares x \$200; Individuals can invest up to 5 shares.

【Intermediary: Plus Social Investment】

- ① Founding: April 2016
- ② Capital: US\$500,000
- ③ Main activities: The company has three core businesses:
 - 1) Securitization of financial products;
 - 2) Incubation of social finance frameworks such as SIBs;
 - 3) Promotion of impact investing

【Intermediary: Kyoto Foundation for Positive Social Change】

- ① Founding: March 2009
- ② Main activities: The first charitable tax-exempt foundation in Kyoto prefecture, the Kyoto Foundation for Positive Social change is a fundraising platform to address social issues.

(2) Investee / Service Provider

【Gamo Dream Factory Council】

- ① Selected project: Gamo Dream Factory
- ② Project overview: The factory promotes local produce and tourism. Specifically it sells local vegetables and handicrafts and operates a cafe serving local dishes.

【Kumino Factory】

- ① Selected project: Project Kumino
- ② Project overview: Production and sales of wooden toys made of local Japanese cedar trees.

【Ainomachi Eco Club】

- ① Selected project: Production of eco-friendly soap
- ② Project overview: Production and marketing of eco-friendly soap made from used cooking oil

【Aito Welfare Mall】

- ① Selected project: Honnarado
- ② Project overview: The organization matches residents' needs in daily lives with locals who are willing to lend a hand.

(3) Project details

① Background

In April 2014, East Oumi City launched an initiative to foster collaboration between the government and local residents for community development purposes. In this context, the city started the Community Venture Program to fund local social enterprises addressing grassroots issues. Of the four ventures in 2014 and three ventures in 2015 selected and funded through this program, some even became exemplary cases of social enterprises. The challenge with this program, however, was the bilateral nature of their projects; the government-funded ventures were mainly accountable to the government and failed to effectively engage local residents. Moreover, the city government and its taxpayers were not aware of the impact that the social enterprises were making on the communities.

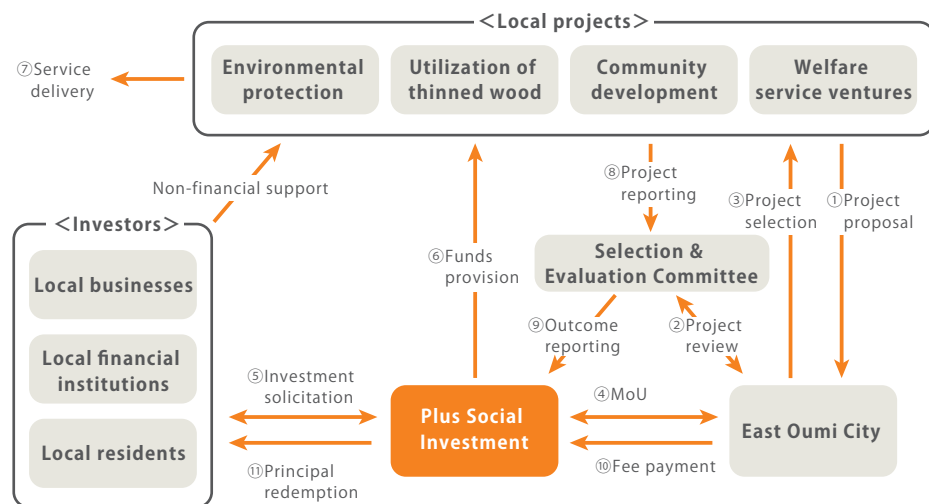
② Project formulation

In 2016, the Kyoto Foundation for Social Positive Change and Plus Social Investment proposed the SIB-backed Community Venture Program to East Oumi City, as part of the Nippon Foundation's call for SIB proposals. The project works in the following way in a nutshell: Local people make financial investments in social enterprises through purchasing privately placed bonds issued by Plus Social Investment; in return the municipal government pays service provision fees based on evaluation findings. The government chose SIB as a way to leverage citizen investment to generate social financing that flows locally among stakeholders. In April 2016, the municipality decided to transition from grants to results-based financing in partnerships with intermediaries and inputs from residents.

③ Stakeholders

The diagram below describes the project structure and stakeholders' interests.

Figure 33 Project structure



- ① Project proposal; Service provider submits proposal to the government
- ② Project review; Review by the evaluation committee
- ③ Project selection; Government selects service providers
- ④ MoU; Government and intermediary sign an MoU
- ⑤ Investment solicitation; The intermediary solicits individuals to invest in privately placed bonds
- ⑥ Funds provision; The intermediary provides funds to service providers
- ⑦ Service delivery; Service providers implement their projects
- ⑧ Project reporting; Service providers report their results to the evaluation committee
- ⑨ Outcome reporting; Evaluation committee reports results to the intermediary
- ⑩ Fee payment; Government makes payment to the intermediary based on achieved outcomes
- ⑪ Principal redemption, interest payment; The intermediary redeems principal and pays interest to investors

Source: Plus Social Investment

Figure 34 Stakeholders and their interests

Name	Role	Interests and expectations in the project
Investors	Investors	<ul style="list-style-type: none"> • Solving community issues through community financing • Improving transparency of government funding
Kyoto Foundation for Positive Social Change Plus Social Investment	Intermediaries	<ul style="list-style-type: none"> • Serving as facilitator for the government, service provider, and investors • Improving the effectiveness of projects to secure returns for investors
Service providers	Service providers	Contribute to solving social issues and revitalization of local economy through service delivery
East Oumi City Government	Government	<ul style="list-style-type: none"> • Improving citizen engagement and revitalizing the regional economy by leveraging locally available resources • Raising awareness of government services and improving performance through results-based financing

Source: Interviews

④ Risk, return, and impact

The Community Venture Program selected four projects, each with its outcome goals decided at the beginning of the year. The evaluation committee made a binary decision of whether the project achieved its goals or not - based on which the government makes payments to the intermediary Plus Social Investment. Investors are entitled to a maximum of 2% annual interest in return, on top of principal redemption. At the end of the year, the evaluation findings informed stakeholders that all four projects successfully achieved their outcome goals.

Figure 35 Progress against outcome goals

Project name	Outcome goals	Progress at year-end
Gamo Dream Factory Council	<ul style="list-style-type: none"> • Factory constructed • Business launched • Staff recruitment commenced • More stakeholders involved 	<ul style="list-style-type: none"> • Cafe opening in Sept 2016 • Cafe open five days a week for lunch and afternoon tea • 8 staff members recruited • Tour guides trained
Kumino Project	<ul style="list-style-type: none"> • Concrete sales plans in place based on marketing strategy • Product packaging plans in place • Partnerships with the forestry union formed 	<ul style="list-style-type: none"> • Eco Product Award granted by Shiga Prefecture • Product sales started • Used by daycare centers in the city • Collaboration with the forestry union under way
Production of eco-friendly soap	<ul style="list-style-type: none"> • Product packaging plans in place • Prototype completed • 100 prototype users recruited and user feedback collected • Detailed business launch plans in place 	<ul style="list-style-type: none"> • 500 units of samples produced • 100+ users recruited for testing
Honnarado	<ul style="list-style-type: none"> • Trainings conducted for members, five members recruited • Member events organized • A three-year plan completed, with a clear one-year action plan • Understanding of vacant property management obtained, solicitation of vacant properties commenced 	<ul style="list-style-type: none"> • Member trainings and events held • Vacant property management started

Source: Plus Social Investment

(4) Key takeaways

① Positive dynamic created through local financing

In this project, the fact that the service providers and the investors belong to the same community resulted in a positive dynamic and contributed to smooth implementation. The service providers felt obliged and motivated to succeed under close monitoring, while the investors were invested in addressing local needs. Becoming investors in social issues, local residents began to feel ownership and increase engagement in their own communities.

"The best part about this initiative is to feel connected to the investors and other stakeholders. As service providers, we wouldn't have had the opportunity to meet people and be supported by them in the traditional grant mechanism. I was hesitant at first to solicit investments, but I later learned that one needs that level of commitment to succeed. Imagining the faces of the investors increased a sense of responsibility. This initiative helps motivate service providers" (Kumino Factory representative)

"I wouldn't be able to say things to service providers in the traditional grant scheme, but I was able to voice my opinions as an investor in this initiative. Despite the small investment, I was happy when my investees achieved positive results. I'm enjoying the interaction with the investees and would like to see more young people more engaged in these activities."

(Individual investor)

② Optimization of performance through results-based financing

Transitioning from a grant modality to performance-based payment means that the government is less involved in managing expenditure of grantees and more focused on supporting service providers to deliver results in partnership with intermediaries. Therefore, this was an opportunity to make government services more effective and efficient.

"In the old system, I would've worried about menial things like attaching receipts to formal reports. Instead, the new system gives me flexibility to choose the means achieve the end. I feel that trust is given to the service providers and that's a good thing."

(Ainomachi Eco Club)

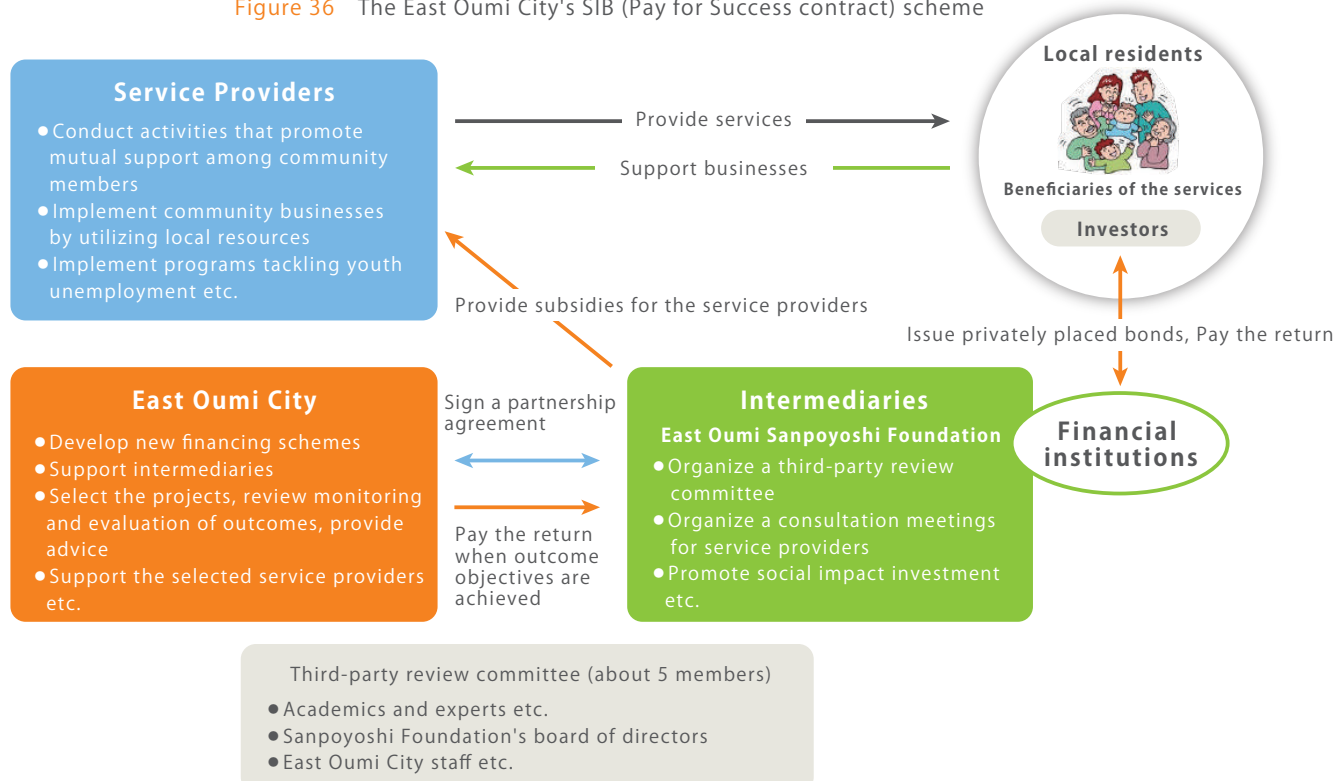
(5) Potential for replication

Three key points are worth highlighting from this case for the purposes of promoting impact investing at large.

① Raising awareness from humble beginnings

Building on the success of the Community Venture Program in 2016, East Oumi is currently working on another results-based financing case involving employment support, at the time of writing of this report. The investment scale is estimated to increase to US \$25,000. This scale-up was made possible mainly because the 2016 initiative managed to create an excellent precedence both for investors and service providers. Thus, the East Oumi case that started from humble beginnings serves as a great example for other local government bodies that are keen to optimize grant funding and improve citizen engagement. Based on the success of the 2016 pilot, the intermediary Plus Social Investment was also able to upgrade its operation to "Type II Financial Instruments Business" enabling the company to fundraise from a wide range of investors, beyond the borders of East Oumi. In addition, the city government started collaborating with a new local intermediary called the East Oumi Sanpoyoshi Foundation. Established in June 2017, the foundation was started by a number of people from finance, business, and civil society, with an aim to mobilize "funds with a conscience" in order to protect the environment, empower youth, facilitate dialogue across generations, provide youth employment opportunities, etc. As of October 2017, the foundation has managed to raise US\$30,000 from concerned citizens as endowment. East Oumi now boasts two intermediary financing bodies in its impact investing ecosystem, thus further enabling local residents to engage in and contribute to local challenges.

Figure 36 The East Oumi City's SIB (Pay for Success contract) scheme



② Documentation and sharing of evaluation case studies

The East Oumi case follows a single-year model based on the normal budget cycle. This timeline does not necessarily sync with community-based projects that tend to see outcomes and impact achieved on longer time horizons. This timeline discrepancy is a real challenge for the government. As a way to overcome this, case studies on evaluation design and methodologies for single year projects need to be documented and shared across geographies so that evaluation know-how can be spread. An additional point on evaluation worth highlighting is the importance of measuring the effect of shifting from a grant modality to performance-based payment. As discussed in the section above, this shift has demonstrated positive impact on the government, service providers, and investors in East Oumi. Further investigation into such a positive "side-effect" can be helpful for other stakeholders who are considering replicating the model in their respective geographies.

③ Collaboration among intermediaries

While service providers tend to get the limelight in SIB projects, the importance of intermediaries cannot be overstated. The East Oumi case is no exception and owes its success to the effectiveness of the intermediaries including Plus Social Investment. As the Japanese population becomes progressively old and government budgets continue to shrink, government services need to tap into private sector funding. In this context, the role of intermediaries to facilitate and build consensus among various stakeholders, mobilize resources, and provide overall guidance will become increasingly valuable. In fact, the role will become increasingly complex too. Therefore, it is vital for intermediaries with different expertise and networks to collaborate and strengthen their capacities.

5-3 An Impact Investing Fund by Shinsei Corporate Investment (the “Child-care Support Fund”)

This is a case study of an impact investing fund established by the Shinsei Bank's private equity arm, Shinsei Corporate Investment. The first-of-its-kind impact investing fund is specifically designed to support child-rearing-related ventures, and one of its investees is an enterprise called mama square.

5-3-1 Investment Overview

Fund name	Japan Impact Investment I Limited Partnership (the “Child-care Support Fund”)
Fund establishment	5 January 2017
Fund timeline	10 years
Fund size	JPY 500 million (approximately JPY 50 million, or USD 500,000 per investment)
Fund investors	General Partner: Shinsei Corporate Investment Limited Limited Partner: Shinsei Bank, Limited
Investment scope	Early to later stage enterprises engaged in the areas of childcare, after-school care, education, household support, supporting families caring both children and elders in parallel, supporting the work-life balance of working women, and women's empowerment, etc.
Deal #1	mama square Co., Ltd. (the Deal executed on 25 Jan 2017)
Expected social impact	mama square aims to reintegrate child-rearing mothers into the workforce by offering work and office spaces with childcare facilities. While Japan suffers from serious labor shortage, the business model immediately creates job by bringing mothers into labor market, and in the long term, it is expected to revitalize local economies and to increase fertility rates.
Key takeaways	<ul style="list-style-type: none"> • A mix of positive factors which helped realize the fund: This impact investing fund was materialized owing to a few key factors, including the fund managers' enthusiasm to address social challenges in child-rearing area, the company's experience in investments with social impacts, and the management's drive to explore new opportunities. • Benefits to service providers: mama square appreciates that the impact investor not only aligns with the vision of the social enterprise just as angel investors would, but also has offered practical management support to more generate social impact through its business. This case demonstrates that the impact investor consistently respects the mission of the social enterprise and supports its sustainable growth. • Selection of an investee with a business model compatible with social impact: Shinsei Corporate Investment seeks to achieve both financial and social returns by selecting investees with business models that incorporate social impact. Despite being a for-profit company, mama square, simply by pursuing its business model, provides job opportunities for child-rearing mothers in the short term, and tackles systematic social challenges, such as the lack of nursery centers, labor shortage, and work style reformation in the longer term.

5-3-2 (1) Investors
Project details 【Shinsei Corporate Investment Limited】¹⁴

- ① Established: November 2012
- ② Capital: JPY 50 million
- ③ Shareholder: Shinsei Bank (100%)
- ④ Business: It is a private equity investment company and has proven track record in pre-IPO investments, developments of co-investment funds with third-party partners, and buy-out investments through hands-on management support. Its diverse portfolio includes investments in IT and biotech sectors. In 2015, the Shinsei Bank subsidiary group, of which Shinsei Corporate Investment was a part, was recognized for its innovative approach to provide tailor-made and long-term support depending on each enterprise's life-cycle, and won the Porter Prize organized by the Graduate School of Hitotsubashi University.

(2) Investee

【mama square Co., Ltd.】

- ① Established: December 2014
- ② Capital: JPY 359 million
- ③ Shareholders: Satoshi Fujishiro (CEO), Relia Communications, Nagatanien, Daiwa Lease, Xymax, Hankyu Railway, Shinsei Corporate Investment, Mitsubishi UFJ Capital, etc.
- ④ Business: Based on its mission to create a society in which parents can work close to their children, the company manages offices with childcare facilities and is entrusted call center operations and back office services. As of October 2017, mama square runs 16 branches under its direct management, with other branch models, such as local government collaboration and franchising models, depending on clients' needs.
- ⑤ Other relevant information: The childcare facilities that the mama square runs are not legally classified as 'daycare centers', as the mothers are physically present in the same location with the children. mama square's business partners understand it as a favorable condition that the mothers' physical proximity contributes to more effective emergency response and safety guarantee of the children.

¹⁴ While Shinsei Bank is involved in the fund as an LP, this section focuses on Shinsei Corporate Investment as it serves as the GP with executive power.

(3) Project overview

① Background

The labor force population in Japan will shrink by 2.75 million from 2010 to 2020, according to the data from the Ministry of Health, Labor, and Welfare. While the government has been campaigning for women's empowerment and participation in the labor force, significant challenges remain including the shortage of nurseries. Up to 60% of women leave their jobs due to pregnancy and birth. Even if women want to return to work after taking maternity leaves, few companies create enabling environments to do so.

The current government-approved nursery center system has a major shortcoming, since the access to these subsidized nurseries is given priority to the parents with full-time works, while the parents with part-time or no-job are put on a long waiting list. This creates a vicious cycle as the latter mothers simply cannot find jobs without nurseries to look after their children. As such, Japanese society requires systematic improvement to allow flexible work-style and retain high-performing women who also want to strive for a feasible work-life balance.

② Project purpose

This is an impact investing case in which the interests of the investors align with those of the investees. The table below summarizes their perspectives.

Figure 37 Comparison of investor and investee perspectives

Investor Shinsei Corporate Investment	Investee / Service Provider mama square
<p>【Investment purpose】 To make impact investing in early to later stage enterprises, directly or indirectly engaged to improve work-life-balance, and in the areas of child-rearing related businesses, such as childcare, after-school care, education, household support, supporting families caring both children and elders in parallel, and supporting women's empowerment, etc.</p>	<p>【Investee's purpose】 To create opportunities for mothers to balance work and child-rearing by offering both childcare facilities and work in its offices</p>
<p>【Perspective on this project】</p> <ul style="list-style-type: none"> •While pursuing financial returns at a middle-risk middle-return level, the company also measures and monitors social impacts. •As the company understands that this is a growing sector, it anticipates continuous demand for capital raise •The company sees a role for itself in sharing experiences and know-how from its past venture and buyout investments given the fragment nature of this sector 	<p>【Perspective on this project】</p> <ul style="list-style-type: none"> •The enterprise's mission itself implies that the profitability and social impact are two sides of the same coin •Like angel investors, the impact investor expressed interest when they recognized mission alignment with the enterprise. It, as an institutional investor, pursues financial investment exits, such as an IPO, and at the same time puts emphasis on whether the enterprise's activities are in line with its mission. •Visualization and monitoring of social impacts fit well with the enterprise's management strategy, and are often one of the effective ways to share the business challenges and communicate better with the employees

Source: Interviews

③ Stakeholders

While the project structure consists of a simple investor-investee relation, this section also includes those stakeholders affected by the mama square business. Employing this broader perspective made two things clear: 1) the role of the impact investor among other types of investors; 2) the impact the mama square may have on other stakeholders.

Figure 38 List of stakeholders and their interests

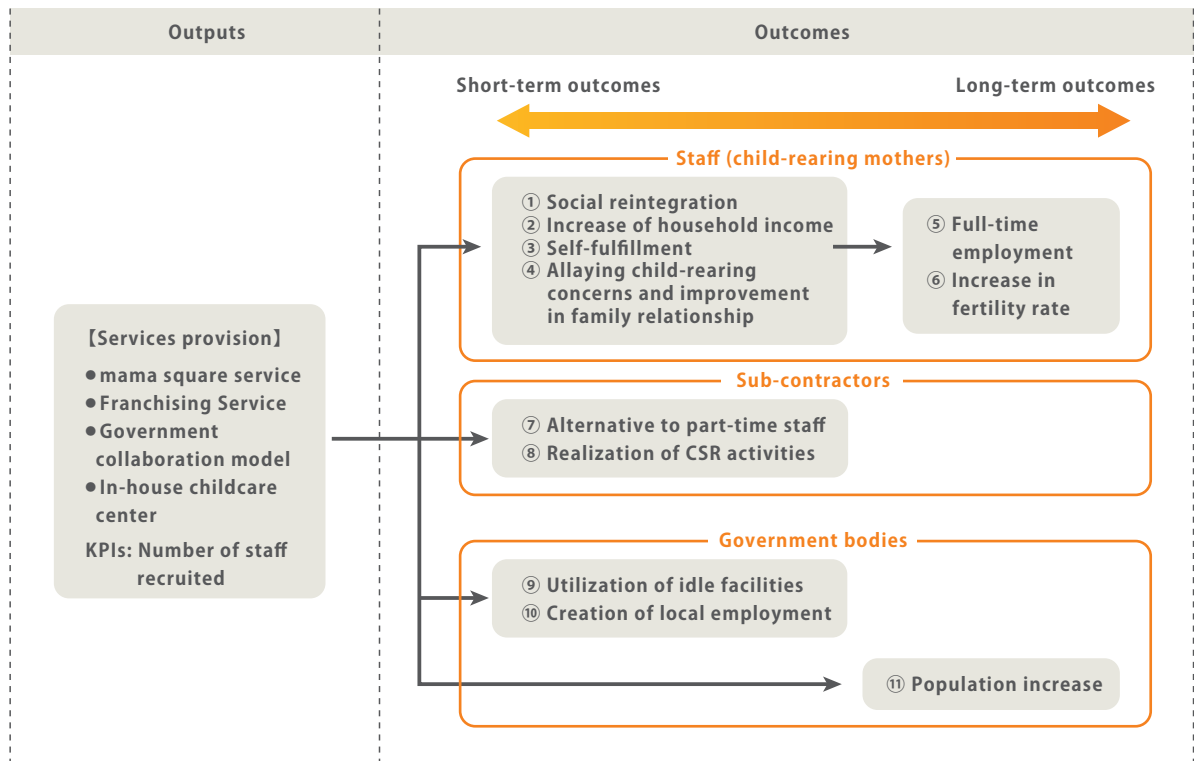
Category	Expectations and interests
Investors	<ul style="list-style-type: none"> ● Financial and social returns achievement
Angel investors	<ul style="list-style-type: none"> ● Find alignment with investees' mission and provide funding before business launch
Business companies	<ul style="list-style-type: none"> ● Assess strategic synergies between its core business and investees' business
Venture capital	<ul style="list-style-type: none"> ● Seek financial growth potential of investees
The Impact investor	<ul style="list-style-type: none"> ● Looks for value alignment and social impact through business expansion
Investee / Service Provider mama square	<ul style="list-style-type: none"> ● Strives for realization of its mission to create a society in which parents can work close to their children ● Business growth and stable management
mama square staff members who are themselves raising small kids	<ul style="list-style-type: none"> ● Want to work while raising kids ● Prefer flexible work style ● Enjoy a sense of safety being physically close to their children
Clients including BPO business partners	<ul style="list-style-type: none"> ● Improve productivity by focusing on core activities and outsourcing back support functions ● Promote diversity and women's empowerment at work place ● Overcome the issue of labor force shortage
Business partners, such as railway companies, commercial facilities, and in-house nurseries	<ul style="list-style-type: none"> ● Synergy with core business and marketing to potential clients ● Social welfare to working mothers
Government	<ul style="list-style-type: none"> ● Job creation ● Achieve zero-waiting for nursery centers ● Revitalize local economies (idle facilities, local shopping area)

Source: Interviews

④ Expected social impact

In this project, the investor and the service provider developed a logic model detailing the social impact that the project could have. It's used as a management tool to share the progress and identify the issues. (The logic model below is the version as of the time of writing of this report and is expected to change in the future)

Figure 39 Logic model



Source: Shinsei Corporate Investment/ mama square

⑤ Risk, return, and impact

Shinsei Corporate Investment defines the impact investing fund's risk-return appetite at middle-risk middle-return. While the return expectation could be lower than the normal venture investment deals within Shinsei Corporate Investment but definitely at a reasonable level as an investment by institutional equity investors, the 'middle-risk' does not completely remove the possibility of impairment of the investment principal. In order to reduce this risk, the fund provides more management support to the investees compared to normal venture firms. Social impact is clearly identified during the due diligence process, though not measured at that time. Social impact assessment is conducted throughout the investment period.

(4) Key takeaways

① A mix of positive factors helped realize the fund

This impact investing fund was conceptualized as a result of three individuals' enthusiasm to actively address social challenges in combining child-rearing and work, and work-life balance. After discussions on feasible ways for a financial institution to bring change to the child-rearing sector, they reached to a concept of making impact investing through a fund.

At the same time, Shinsei Corporate Investment had been seeking for new ways to create social impact, beyond its involvement through investments in renewable energy and biotech.

"As the recognition of the Porter Prize demonstrates, our corporate culture was conducive to proposing new business ideas. Thus, we can say, there was a foundation to incubate the idea of impact investing"

(a member of Shinsei Corporate Investment's Impact Investment Team)

The management of the Shinsei Bank group, of which the Shinsei Corporate Investment is a part, also finds the child-rearing support fund meaningful that it can generate a positive cycle of risk-money and social impact.

Thus, this impact investing fund was materialized owing to a few key factors, including the fund managers' enthusiasm to address social challenges in child-rearing area, the company's experience in investments with social impacts, and the management's drive to explore new opportunities.

② Benefits to service providers

While the mama square team had built partnerships with different investors depending on the stage of its organizational development, it was also aware that impact investors clearly offered unique value compared to other types of investors. In practice, mama square appreciated that the impact investor not only aligned with the vision of the enterprise just as angel investors would, but also offered practical management support to generate social impact. This case demonstrates that the impact investor consistently respects the mission of the social enterprise and supports its sustainable growth.

③ Selection of an investee with a business model compatible with social impact

In addition to the social impact angle, Shinsei Corporate Investment sees strong financial growth potential in businesses tackling child-rearing issues. Since this sector consists of many small-scale service providers, Shinsei Corporate Investment is considering possibility to intervene through several enterprises' organizational development, performance optimization, M&A support, etc. by leveraging its experience in venture and buy-out investments.

Despite being a for-profit company, the mama square, simply by pursuing its business model, provides job opportunities for child-rearing mothers in the short term, and tackles systematic social challenges, such as the lack of nursery centers, labor shortage, and work style reformation in the longer term.

Shinsei Corporate Investment believes the key to success in impact investing lies in searching and selecting investees with business models that can achieve both financial and social returns.

"We want to demonstrate that financial returns can indeed be achieved in impact investing"
(a member of Shinsei Corporate Investment's Impact Investment Team)

(5) Potential for replication

Three key points are worth highlighting for the purposes of replication.

① Promoting impact investing in house

For Shinsei Corporate Investment, impact investing was in some ways a natural extension of its prior investment track record, as explained above. Moreover, as the winning of the Porter Prize indicates, fertile grounds for incubating impact investing existed as part of Shinsei Corporate Investment's corporate culture. Nevertheless, when the idea of impact investing was first proposed internally, some assumed it was a CSR initiative. The management had to be convinced of the robust financial dimension to impact investing. Given the low awareness of impact investing in Japan in general, internal proposals on impact investing need to be aligned with overall corporate strategies and prepared with financial rigor.

② Collaboration with other financial institutions and the importance of an ecosystem

Shinsei Corporate Investment explains that references from other financial institutions were highly valuable in sourcing the investees of the impact investing fund. It points to the fact that financial institutions are not always in competition but exist in the same ecosystem and can be effective partners. For example, if considered to be out of scope, potential investees are often introduced to other investors.

The authors of this report interviewed a key informant who made an insightful comment, "How one sees risk-return balance of an investment depends on investors and on investees growth stage. Once an impact investing ecosystem in Japan becomes more mature, enterprises will be able to fundraise more effectively by being able to choose the right investor for their business plan and growth stage at that time. Therefore, in order for the impact investing sector to gain momentum and expand in scale in Japan, it is important to cultivate investors with varying views in risk-return and investment size preferences, as well as to create a platform to facilitate information and knowledge exchange across different stakeholders.

③ Social impact measurement's positive impact on social enterprise's growth

Both Shinsei Corporate Investment and the mama square believe that sharing impact measurement data has a positive effect on the mama square's sustainable business growth.

As explained above, the mama square's performance metrics range from output-level indicators, such as the number of employed mothers, to outcome-level indicators separately identified among different stakeholders, such as local government caring about the number of children on waiting lists for nurseries, job creation, and revitalization of local economies, etc. By engaging more partners throughout different industries, the mama square has a big potential to generate different social impact through its business. Visualizing social impact will certainly help encouraging new operators join the business and excavate more demand so that the market itself grows, which may lead the government to render support to such high-potential market. Moreover, the mama square has learned from the experience that sharing quantitative figures from impact measurement contributes to improving staff morale and motivation.

"New recruits start their jobs with a firm understanding of the company's mission and values. Some staff members with young children, at other companies, had been rejected their job application even before taking interviews. So, we put importance to our staff's understanding the impact the company delivers to many mothers looking for the place to self-fulfill, just like they used to do"

(Founder of mama square)

Impact measurement itself is a powerful tool for social enterprises to capture and sustain the good work that they do for society.

⑥ Insights from Market Size Estimation

As explained in this chapter, the Japanese impact investing market has grown by 2.1 times from 2016, as a result of increased investments by many kinds of organizations including governmental financial agencies, financiers specializing in impact investing, and, perhaps most notably, investors involved in it alongside more traditional investment. But the survey results indicate that the latter is still a minority and not widespread. Moreover, in terms of awareness of the term "impact investing", given that a clear trend was not observed and an insignificant number did not respond to this question, awareness is not yet become mainstream. However, the research discovered great potential for growth especially given the enormous size of the "pseudo impact investors" that dwarfs the investment balance of impact investors. This pseudo segment is nurtured by the global movement for achieving social and environmental benefits through purposeful investments. The surveys, interviews, and case studies pointed to the following measures that would further expand impact investing in Japan.

Figure40 Measures and expectations for the future

- ① Favorable government regulations
- ② Promote interest and understanding of impact investing among senior executives
- ③ Increase interest and engagement by asset owners
- ④ Codifying and disseminating knowledge (dissemination of definitions, sharing of exemplary cases, research on the relationship between financial standing and social impact, improvement in social impact due diligence and reporting practice)
- ⑤ More investable options with social impact
- ⑥ Increased availability of risk money for socio-environmental causes
- ⑦ Development of intermediaries

- ① There is a clear need for understanding and support both within and outside of impact investing organizations. Favorable government regulations would include examples such as obligating a certain proportion of investments with social impact orientation and promoting public sector investments to actively engage in impact investing.
- ② An inherent issue in the need for stronger management buy-in relates to the time horizon of social impact. Social impact can only be realized in the medium-to-long term, therefore investment decision of that nature needs to be taken by senior executives.
- ③ In terms of asset owners' interest and engagement, institutional investors such as pension funds and insurance companies, as well as individual investors, can encourage asset managers to conduct impact measurement. Creating awards for excellent cases could incentivize impact measurement to be carried out. (This point links to Proposal #4 on tax benefits and fiduciary responsibilities as discussed in the following chapter)
- ④ Much needs to be done with regards to impact measurement as its understanding is yet to be widespread. For investors to feel comfortable engaging in impact investing, practical research and evaluator development are essential (This point links to Proposal #5 on impact measurement as discussed in the following chapter)
- ⑤ It is important to create more demand of impact investing projects that investors can supply their impact money to (This point links to Proposal #2 and 3 on social/development impact bonds, legal entities, and certifications as discussed in the following chapter)
- ⑥ Risk money would become more abundant with the widening of investor segments willing to engage in impact-related investments (This point links to Proposal #1 and 7 on dormant account utilization and individual investors as discussed in the following chapter)
- ⑦ The case studies demonstrate the critical role of intermediaries in formulation of impact investing projects. As the number of project increase, it would become a business opportunity as well (This point links to Proposal #3 on legal entities and certifications as discussed in the following chapter)

Chapter 3: Expanding the Japanese Impact Investing Sector

Based on the current situation and issues, the National Advisory Board (NAB) proposed seven key recommendations towards the development of an impact investing ecosystem in May 2015.

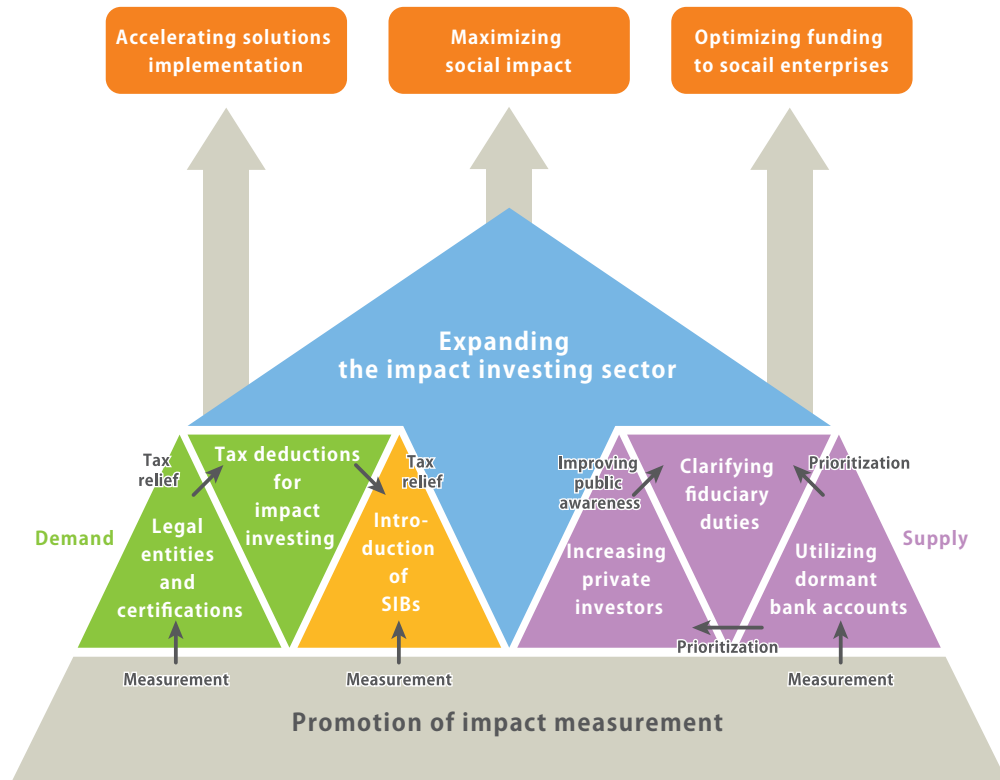
Figure 41 Recommendations for the expansion of impact investing¹⁵

Theme	Overview	Challenges	Priorities
Utilization of Dormant bank accounts	Enact the Dormant Bank Accounts Utilization Bill and support rapid implementation of projects	In order to stimulate investments and donations with the support of dormant bank account, environmental improvements must be made for Pay For Success investments.	Staff development of fund-receiving organizations, technical development of impact measurement tools, and capacity development of financial intermediaries.
Introduction of SIBs and DIBs	In order to implement SIBs, develop suitable schemes with Japanese characteristics	Consider different measures to reduce risk for investors but at the same time do not negatively influence government-funded programs	Creation of a platform, led by intermediaries, where stakeholders can gather to hold discussions on SIBs with an aim to trial SIB schemes with Japanese characteristics.
Establishment of legal entities and certifications for social enterprises	Create legal entities and certification systems for social enterprises to facilitate project implementation and fundraising.	Ensure the certification issue does not get left behind while pushing for the creation of a new legal entity	Keeping the goal of social investment tax reduction in view, establish a platform to discuss legal entities and certifications for social enterprises.
Establishment of tax benefits for impact investing	Create financial incentives to motivate individual and institutional investors to engage in impact investing	Definitions, users, and expected outcomes should all be clarified when advocating at the national level	With a view to visualize the design, implement tax benefits for impact investing on a trial basis by utilizing measures such as a special tax zone. To go beyond one-time pilots, execute additional measures to result in to tax reforms.
Promotion of social impact measurement	Establish measureable goals for social impact and create an environment for monitoring of progress against those goals	Ensure there is opportunity for service providers to organize their inputs, outputs, and outcomes and communicate them to investors	Create an enabling environment for social enterprises to conduct impact measurement on their own, through improving the application format of grant proposals and incorporating measurement components in grants.
Clarification of fiduciary duties	Confirm that impact investments does not violate fiduciary duties and facilitate institutional investors to make impact investments through their portfolios	Create an enabling environment for institutional investors to engage in impact investing through raising public awareness and providing information	First, leverage private foundation funding to create the first impact investing case involving institutional investors in Japan. This leads to the development of asset management guidelines, which should be shared with pension funds and other institutional investors.
Expansion of individual investors	Heighten national investment literacy and appeal to potential individual investors, with an aim to nurture an overall culture of impact investing	Communicate to the wide public about the benefits of impact investing on society and appeal to individual investors.	Build an information platform for impact investments that facilitates investment decisions of individual investors.

The seven recommendations have complementary relationships among each other and are crucial for the enhancement of the impact investing ecosystem. While the realization of each recommendation is important, achieving all of them would result in the expansion of impact investment and will ultimately contribute to maximizing social impact.

In this chapter, each recommendation follows the same format: first outlining the development over time; then articulating progress and identifying issues; and finally encouraging stakeholders solid steps to achieve the objectives.

Figure 42 Conceptualization of the seven recommendations



① Utilization of Dormant Bank Accounts

①-1 Recommendation Background

Dormant bank accounts refer to bank accounts that have had no activity for a long period of time. Banks generally consider accounts as dormant when no activity happens over 10 years or depositors cannot be reached. According to the bylaws of the Japanese Bankers Association, such dormant bank accounts are become the profit of financial institutions. However, even if accounts are considered dormant, withdrawals can be re-enabled if the established procedures are followed. Based on current estimates, the total amount of dormant accounts could be up to US\$700 million per year after deducting refunds.¹⁶

Such dormant bank accounts exist universally in any financial institution with depository functions. UK and South Korea have leveraged these funds effectively to tackle social issues; Japan is now following suit.

①-2 Recommendation (as stated in May 2015)

Staff development of fund-receiving organizations, technical development of impact measurement tools, and capacity development of financial intermediaries.

¹⁶ Cabinet Office and Ministry of Finance

1-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 43 Major developments related to the utilization of dormant bank accounts¹⁷

Year/Month		Major developments
2011	July	Consideration of utilizing dormant bank accounts was mentioned in a meeting on contracts between the government and civil society
2012	March	Inauguration of the Dormant Bank Account National Conference
	July	Dormant bank accounts positioned as a priority measure regarding financial strategies in the Japan Revitalization Strategy
2013	January	Discussions held on dormant bank account utilization among congressmen at a symposium organized by the National Council of Dormant Bank Accounts
2014	April	Establishment of the Parliament Association of Dormant Bank Account Utilization Promotion
	October	The Dormant Bank Account National Council submits a petition for dormant bank account utilization to the Parliament Association of Dormant Bank Account Utilization Promotion
	November	Utilization of dormant bank accounts mentioned in an expert meeting, held by the Council on Economic and Fiscal Policy
2015	May	The Parliament Association of Dormant Bank Account Utilization Promotion solicits public comments related to dormant bank accounts
	September	Measures regarding the utilization of dormant bank accounts presented in "Proposals for the expansion of social impact investments" by the National Advisory Board.
2016	May	Outline of a bill on dormant bank accounts made public
	December	Deliberations on bill within regular Diet session, by the Committee on Financial Affairs within House of Representatives
2017	May	Enactment of the bill on utilization of dormant bank accounts
	September	Cabinet Office sets up a council specifically for the utilization of dormant account funds
	November	The council publishes an interim report on key issues
	November	Research Advisory Group, set up by the council, publishes a report

¹⁷ Events listed in chronological order (same for the other recommendations)

A seminal law for the Japanese impact investing sector - utilization of dormant account funds for social causes - was enacted in December 2016. This bill will come into effect by mid 2018, within 1.5 years of enactment. In May 2017, the Cabinet Office set up a council specifically for the utilization of dormant account funds. Subsequently, in September 2017, the council published an interim report on some of the key issues such as the need for an optimal governance structure for the agency responsible for fund distribution and incorporating innovative methodologies from the private sector. In November 2017, the Research Advisory Group published a report on the medium term goals and discussed the issues of portfolio management, risk management, and personnel development.¹⁸

The new source of funding will be channeled to the private sector in the form of grants, loans, and equity for the purpose of tackling social issues that are deemed challenging to resolve by government efforts alone. Specifically, three focus areas have been raised: 1. Child- and youth-related activities; 2. Livelihood-related activities for the marginalized; 3. Development of local communities and regional economies.¹⁹ The law will be enforced by January 2018 and the basic plans formulated by spring 2018. Funds are expected to start flowing by the end of 2018.

While the Dormant Bank Account Council expects some funds will be used in the form of impact investment, questions are being raised on the availability of service providers, financial intermediaries, and impact measurement experts. New initiatives to train and strengthen these players are required for the effective utilization of dormant accounts.

Dormant bank account funds are expected to serve as a positive stimulus to the overall impact investing sector. To realize a sustainable, circular flow of funds, however, further private-public collaboration, especially those involving existing investors/donors, need to be tested and implemented.

¹⁸ http://www5.cao.go.jp/kyumin_yokin/shingikai/20171110/shiryu_1.pdf

¹⁹ http://www5.cao.go.jp/kyumin_yokin/index.html

2 Introduction of Social Impact Bonds (SIBs) and Development Impact Bond (DIBs)

2-1 Recommendation Background

Aiming to implement effective services, social impact bonds (SIBs)²⁰ are a Pay For Success mechanism that is agreed through a public-private partnership, in which the government repays funds to investors according to the achieved results. SIBs have been explained in detail in the previous chapter.²¹

First introduced in the UK in 2010, SIB has grown to 89 cases worldwide, totaling US\$ 320million, implemented in the fields of recidivism, youth employment, homeless support, early childhood, preventive medical care, etc.²²

2-2 Recommendation (As stated in May 2015)

Creation of a platform, led by intermediaries, where stakeholders can gather to hold discussions on SIBs with an aim to trial SIB schemes with Japanese characteristics.

²⁰ The term differs across geographies. In the US, it is known as Pay for Success (PFS), in Australia Social Benefit Bonds (SBB). In this report, the term social impact bond (SIB) is used.

²¹ DIBs are essentially SIBs implemented in the international development context.

²² <http://www.socialfinance.org.uk/>

2-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 44 Major developments related to SIBs and DIBs

Year/Month	Major developments	
2014	May	The Nippon Foundation starts its SIB promotion project
	November	The Council on Economic and Fiscal Policy holds discussions on impact investing promotion at an expert meeting
2015	April	The first SIB pilot project launched in Yokosuka City.
	May	Measures regarding the introduction of SIB proposed in the National Advisory Board's "Proposals for the expansion of social impact investments."
	June	Commissioned by the Ministry of Economy, Trade and Industry, an SIB pilot project in the dementia prevention field run by several local governments including Fukuoka City.
	July	Implementation of SIBs mentioned in the Revised Japan Revitalization Strategy 2015 as well as the Basic Policy for Overcoming Population Decline and Revitalizing Local Economy, approved by the Cabinet.
2016	July	An SIB pilot project for youth employment started in Amagasaki City
	March	The possibility of SIB introduction for child abuse prevention mentioned in an investigative study to aid the promotion of regional child abuse prevention conducted by the Ministry of Health, Labour and Welfare.
	April	The Nippon Foundation starts to provide grants to intermediaries that develop SIB projects.
2016	June	SIB utilization mentioned in various documents approved by the Cabinet.
	July	METI begins supporting the development of SIBs in multiple local governments.
2017	July	Yokohama City makes public announcement that it will engage in an SIB pilot focused on child poverty.
	March	Kobe and Hachioji Cities secure budgets for SIB projects - for the first time in Japan
	June	Creating an enabling environment and certifications for social enterprises is stated in plans approved by the Cabinet.
2017	July	Prime Minister's Office announces that impact investing approaches like SIBs will be used in the areas of social welfare
	July	Kobe and Hachioji Cities officially launch SIB projects

In March 2017, Kobe and Hachioji Cities secured budgets for SIB projects - for the first time in Japan. The participation of major banks in SIBs is a notable development as seen in the cases of Kobe with SMBC and SMBC Trust Bank and of Hachioji with Mizuho Bank. Additional examples of performance-based projects were implemented in cities in Nara and Shiga prefectures. Moreover, the Ministry of Health, Labour, and Welfare (MHLW) is keen to incorporate SIBs in the areas of child abuse prevention and dementia prevention. For specific examples of SIBs, please refer to the previous chapter.

While the launch of SIBs and performance-based projects is noteworthy, they are still limited to pilot activities at the local government level. In order to address wider social issues, leadership by the central government is key. To realize this, regulatory and systematic guarantees that enable multi-year implementation and payment need to be in place. A prime example of this is the Outcome Fund established by the UK Cabinet Office that offers payments based on performance across various sectors.

Intermediaries play a crucial role in SIBs particularly in project formulation, impact measurement, and fundraising. But the number of intermediaries is limited, and this can become a barrier to the growth of SIBs. Therefore, technical and financial assistance of intermediaries is a much-needed intervention.

③ Establishment of Legal Entities and Certifications for Social Enterprises

③-1 Recommendation Background

In Japan, given there is no legal entity nor certifications specific to social enterprises, organizations are registered as either for-profit companies or nonprofit organizations.²³ This legal situation has been a barrier to project implementation, public awareness, as well as fundraising.

For example, nonprofits involved in impact investing are not allowed to solicit investments. Similarly, public interest organizations cannot raise flexible funding, according to the general rule in which income must not exceed the necessary costs. For-profit companies, likewise, cannot offer tax deductible benefits to funders as nonprofits can. Given this situation, though not ideal, most organizations involved in impact investing are set up as for-profit companies or non-profit companies (NPCs).²⁴

As the number of organizations wishing to engage in impact investing expands, the need for legal and regulatory frameworks to support them naturally increases.

③-2 Recommendation (As stated in May 2015)

Keeping the goal of social investment tax reduction in view, establish a platform to discuss legal entities and certifications for social enterprises.

²³ Options include for-profit companies (stock company, limited liability company, general partnership company, limited partnership company), nonprofit organizations (NPO, certified NPO, social welfare organization, public interest association/foundation, general incorporated association/foundation, small and medium-sized enterprise cooperatives), and other unofficial entities like limited liability partnership

²⁴ Dividends in NPCs are not given to shareholders, but re-invested in social purpose projects

3-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 45 Major developments related to legal entities and certifications

Year/Month	Major developments	
2008	April	METI's Social Business Research Society discusses the evaluation of social business structures and certifications
	June	Nonprofit companies (NPCs) discussed in the Cabinet Office's research
2010	February	Proposals on institutional investigation geared towards social business revitalization presented in METI's research on social businesses
2011	March	Support system for social businesses examined in METI's working group
2015	May	Measures concerning legal entity and certifications proposed in the National Advisory Board's "Proposals for the Expansion of Social Impact Investment."
	June	New legal entities discussed by METI's working group
	December	Cabinet Secretariat formulates a new strategy to improve regularly environment by 2019.
2016	March	Silk Wave Industry becomes the first company to obtain a B Corporation certification in Japan.
		Establishment of the Japan Center for NPO Evaluation
	April	METI's working group examines the state of legal of entities both for domestic and international activities.
	May	Ishii Zoen becomes the second to obtain a B Corporation certification in Japan.
2017	April	The Japan Association of New Economy proposes recommendations on public-interest certification as part of an effort to promote venture philanthropy and impact investing
	May	A special committee set up by the Liberal Democratic Party (LDP) publishes measures to expand the social venture market
	June	Creating an enabling environment and certifications for social enterprises is stated in plans approved by the Cabinet.

The progress made in 2017 shows positive signs that both the government and the LDP are eager to make improvement in the legal status of social enterprises. Going forward, this momentum should be further pushed through a strong public-private partnership. Recognizing social enterprises in the form of awards would be an effective way to improve awareness of the public as well.

④ Establishment of Tax Benefits for Impact Investing

④-1 Recommendation Background

Social investment tax reduction refers to preferential treatment in the form of tax reduction for investments in socially oriented projects. The aim is to stimulate impact investing through financial incentives; however, little progress has been observed in this domain in Japan at the present time.

④-2 Recommendation (As stated in May 2015)

With a view to visualize the design, implement tax benefits for impact investing on a trial basis by utilizing measures such as a special tax zone. To go beyond one-time pilots, execute additional measures to result in to tax reforms.

④-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 46 Major developments related to tax benefits for impact investing

年 月	主な動向
2015 May	Measures concerning tax benefits proposed in the National Advisory Board's "Proposals for the expansion of social impact investment"
2016 April	Social investment tax reduction raised in METI's research
	The Japan Association of New Economy proposes recommendations on tax benefits for impact investing
2017 April May	The Japan Association of New Economy proposes recommendations on public-interest certification as part of an effort to promote venture philanthropy and impact investing
	A special committee set up by the Liberal Democratic Party (LDP) publishes measures to expand the social venture market

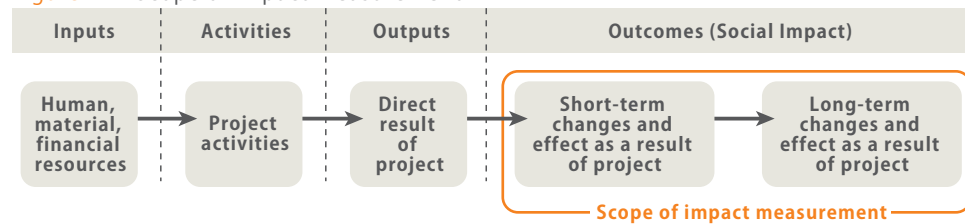
Progress on tax benefits for impact investing hinges on the achievement of the previous recommendation on legal entities and certifications. Therefore, the two should be tackled in an integrated fashion.

⑤ Promotion of Impact Measurement

⑤-1 Recommendation Background

While understanding and measuring social impact is a critical factor in expanding the impact investment sector, the practice of impact measurement was not sufficiently promoted and diffused until a few years ago. It was in this context that this recommendation was put forward especially in clarifying definitions and developing methodologies.

Figure 47 Scope of impact measurement²⁵



⑤-2 Recommendation Content (As of May 2015)

Create an enabling environment for social enterprises to conduct impact measurement on their own, through improving the application format of grant proposals and incorporating measurement components in grants.

⑤-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 48 Major developments related to impact measurement

Year/Month	Major developments
2015	March: "Proposals towards the promotion of impact measurement" published by Foundation for Advanced Studies on International Development (FASID)
	April: A project and impact management tool, newdea, introduced in Japan.
	May: Measures regarding the promotion of impact measurement proposed in the National Advisory Board's "Proposals for the expansion of social impact investment"
	November: A conference in Aichi Prefecture held on grants with outcome-orientation
2016	March: Cabinet Office's Social Impact Measurement Working Group discusses issues and measures to promote impact measurement
	May: Cabinet Office commissions an impact measurement model project
	June: A private sector-led platform, Social Impact Measurement Initiative (SIMI) launched to promote impact measurement in Japan
	June: The National Advisory Board releases impact measurement tool set.
2017	June: SIMI publishes a four-year roadmap to promote impact measurement. Eight working groups launched, followed up by concrete actions.

The Social Impact Measurement Initiative, established in June 2016, has been a key driver in the promotion and diffusion of impact measurement in Japan. Its membership reaching over 130 organizations (as of May 2017), consists not only of funders and corporates, but also nonprofits and intermediaries.

To stimulate the impact measurement movement, SIMI organized the event Social Impact Day in June 2017, following the successful implementation in the previous year. Over 300 individuals from nonprofits and corporates attended the event, demonstrating the heightened interest in the topic both in the social and business sectors. At this event, SIMI released the four-year roadmap (2017-2020) to promote impact measurement. The roadmap sets an overall vision for 2020 to have spread the practice of impact measurement widely in Japanese society and contributed to addressing social issues. Consisting of three themes - culture, infrastructure, and knowledge - each with an annual plan, the roadmap also launched eight working groups that have been working on tasks such as creating guidelines for impact measurement and accumulating exemplary cases.

Moreover, private foundations such as the Nippon Foundation and Toyota Foundation have started requiring logic models as part of grant proposals submitted by fund seekers.

Despite the significant progress in impact measurement, much more needs to be done to align on definitions, understand the purposes, and strategically use data. The various working groups under SIMI are expected to contribute to these areas of building a culture of measurement and promoting common understanding.

⑥ Clarification of Fiduciary Duties

⑥-1 Recommendation Background

Given their tremendous presence in the overall investment market, institutional investors have a crucial role to play in the expansion of the impact investment sector. When institutional investors invest, it is required that there be no violation of fiduciary duties to maximize profits for shareholders. Given this context, there have been concerns whether ESG and impact investing that are non-financial in nature could violate fiduciary duties.

However, the Principles for Responsible Investment, formulated in 2006, stated that taking non-financial information such as ESG in account is within the scope of fiduciary duties. With some evidence on performance correlation emerging, the debate has now even shifted in Europe and North America to the extent that questions are raised whether not considering ESG aspects is actually a violation of fiduciary duties.

The introduction of the Stewardship Code in 2014 has had a similar effect in Japan. But further discussion is required to determine whether impact investing violates or fulfills fiduciary duties.

⑥-2 Recommendation (As stated in May 2015)

First, leverage private foundation funding to create the first impact investing case involving institutional investors in Japan. This leads to the development of asset management guidelines, which should be shared with pension funds and other institutional investors.

⑥-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 49 Major developments related to fiduciary duties

Year/Month		Major developments
2015	May	Measures concerning the clarification of fiduciary duties proposed in the National Advisory Board's "Proposals for the expansion of social impact investment"
	September	The Japanese Government Pension Investment Fund (GPIF) signs the United Nations Principles for Responsible Investment (PRI)
2016	March	Impact investing discussed in the Japan Sustainable Investments White Paper 2015
2017	January	Surveyed impact and community investments in the Japan Sustainable Investments White Paper 2016

Even though the UNEP Financial Initiative published a report titled "21st Century Fiduciary Duties" in 2015, impact investing was not discussed in this report. In the same year, Morgan Stanley published a report "Investing with Impact and Fiduciary Duty" and, in it, the financial firm defines "Investing with Impact as an investment approach that aims to generate risk-adjusted financial returns while supporting positive environmental and/or social impact."²⁶ The report goes on to state, "Fiduciaries who would like to integrate impact investments may consider a separate, impact investment policy statement. This statement would identify a process for including impact investments in the investment portfolio. It should identify why it is prudent to connect certain social and environmental issues to the investment decision-making process. It could also commit to monitoring social impact of the investment."

As such, explicit discussions on the relationship between impact investing and fiduciary duties have been limited to date. But, in reality, the fact that some institutional investors entered into the impact investing sector in 2017 demonstrates there is progress on this topic.

²⁶ Morgan Stanley 2015, "Investing with Impact and Fiduciary Duty"

7 Expansion of Individual Investors

7-1 Recommendation Background

Increasing the number of individual investors in impact investing would not only cultivate the public awareness of impact investment, but also indirectly influences the actions of institutional investors. And the Japanese individual investor market is substantial. The recommendation on expanding individual investors takes these factors in account.

7-2 Recommendation (As stated in May 2015)

Build an information platform for impact investments that facilitates investment decisions of individual investors.

7-3 Major developments and future outlook

The table below summarizes the major developments regarding this recommendation.

Figure 50 Major developments related to individual investors

Year/Month		Major developments
2009	February	Music Securities begins operation of Securite, a micro-investment platform.
2010	March	Kamakura Investment Management starts operation of its investment trust, "Yui 2101" that incorporates social enterprises in the portfolio.
2014	May	The revised Financial Instruments and Exchange Law comes into effect, relaxing the requirements for equity-type crowd-funding (effective as of May 2015)
2015	May	Measures related to individual investors proposed in the National Advisory Board's "Proposals for the expansion of social impact investment"
2017	March	Individual investors engage in the SIB scheme in Kobe City

With regards to this recommendation, the engagement of individual investors in the Kobe SIB case is significant. In that example, a grant-making foundation SIIF managed to provide the risk money that facilitated the individual investors to participate. This demonstrated a successful case of risk segmentation in which the grant-making foundation targets a higher risk investment while individual investors take on lower risk segment.

Another encouraging trend is the growth of investment-type and loan-type crowd-funding platforms that create more opportunities for individual investors to engage in impact investing.

Going forward, a two-tiered approach is recommended: 1. To match the needs of private wealth management with impact investing; and 2. for asset managers to develop impact-oriented investment trusts so that less wealthy individual can also engage in impact investing. These approaches would be most effective when combined with the above-discussed tax benefits for impact investing. Strengthening the growing crowd-funding platforms with more robust impact measurement would also attract more flow of investment into the platforms.

Conclusion

As presented above, the seven recommendations, each with its own challenges, are key in expanding the impact investing sector in Japan. An overarching challenge across the recommendations is building the capacity of social enterprises and developing intermediaries that can support these ventures. It is imperative to nurture entrepreneurs and business professionals who are capable of running effective social enterprises that not only meet the increasing supply of impact investing, but also learn and grow with impact investors.

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