

Current State of Social Impact Investment in Japan 2016

September 28, 2016

The Global Social Impact Investment Steering Group (GSG)
Japan National Advisory Board

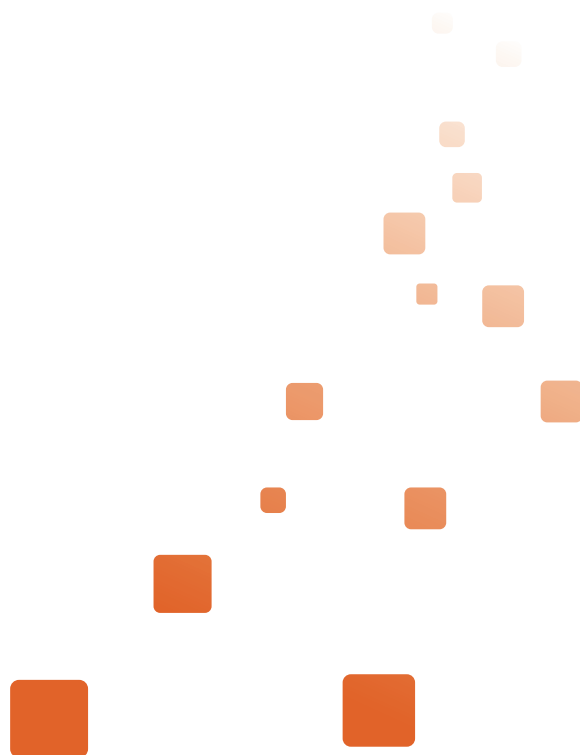


TABLE OF CONTENTS

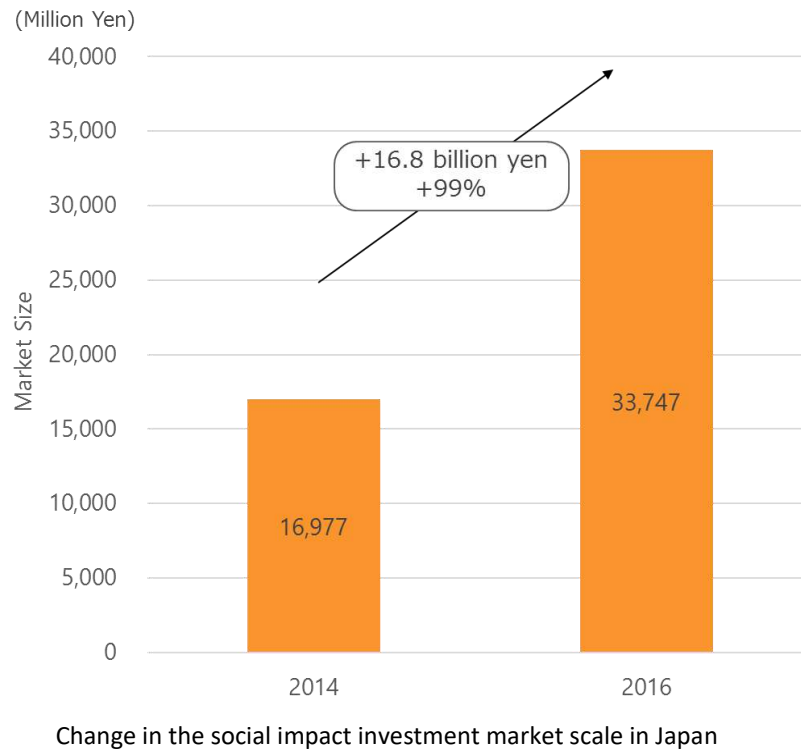
Overview	4
Introduction	6
I G8 Social Impact Investment Task Force and National Advisory Board	6
II This Report	7
Main Subject “The Current State of Social Impact Investment in Japan”	9
I What is Social Impact Investment?	9
1. Definition of Social Impact Investment	9
2. History and Background of Social Impact Investment	10
3. Need for Social Impact Investment in Japan and its Background	11
4. Global Trends and Market Scale of Social impact investment	35
II The Social Impact Investment Market in Japan	37
1. Social Impact Investment Market Scale Measurement	37
2. Analysis of Social Impact Market Scale	41
3. Examples of Social Impact Funding in Japan	44
III Efforts to Expand Impact Investment in Japan	53
1. Utilization of Dormant bank accounts	55
2. Introduction of the Social Impact Bond (SIB) and Development Impact Bond (DIB)	59
3. Corporate Systems and Certification which Facilitate Socially Oriented Projects	63

4. Establishment of a Social Investment Tax Reduction System	66
5. Permeation of Social Impact Measurement.....	68
6. Clarification of Fiduciary Liability	71
7. Increasing Private Investors	74
IV Prospects of the Social Impact Investment Market and Necessary Activities	77
Appendix.....	80

OVERVIEW

Scale of the Social Impact Investment Market in Japan

The scale of the social impact investment market in Japan has nearly doubled, from approximately 17 billion yen in 2014 to approximately 33.7 billion yen in 2016.



Implementation progress of the proposals for the expansion of social impact investment in Japan

Although the scale of social impact investment in Japan is on an upward trend according to the “Proposals for the expansion of social impact investment in Japan” published by Japan’s National Advisory Board in 2015, it cannot be said that major progress has been observed at the present stage. Further expansion in social impact investment is anticipated as these proposals are implemented.

Theme	Overview	Specific action and progress situation
Utilization of Dormant bank accounts	Enactment of the Dormant Bank Accounts Utilization Promotion Bill and support for the promotion of speedy project implementation after bill enactment.	<ul style="list-style-type: none"> May, 2015 : Collected public comments concerning Dormant bank accounts. Sep, 2015 : Bill outline regarding utilization of funds provided by dormant bank accounts was made public. May, 2016 : Started deliberations on Dormant bank accounts in the ordinary Diet.
Introduction of SIB and DIB	Develop a suitable Japanese version of the SIB scheme in order to carry out projects introducing Social Impact Bonds (SIB)	<ul style="list-style-type: none"> Apr, 2015 : Started 3 SIB pilot programs Jun, 2016 : Started development support for the official introduction of SIB in 2017 as a commissioned project by the Ministry of Economy, Trade and Industry (METI). Jun, 2016 : SIB utilization was mentioned in major policies.
Corporation systems and certification which facilitate social projects	Creating corporate systems and certification systems in order to facilitate the project implementation and financing of social corporations.	<ul style="list-style-type: none"> Mar, 2016 : The first obtainment of B Corporation Certification in Japan Apr, 2016 : Establishment of the Nonprofit Organization Evaluation Center Apr, 2016 : METI Research Society issued a report about the state of service business entities which support the community
Establishment of a social investment tax reduction system	The tax reduction system will be established as a financial incentive in order to increase the motivation of private investors to invest in social projects.	<ul style="list-style-type: none"> Apr, 2016 : The new Economic Union proposed the expansion of social impact investments by a taxation system which promotes venture investment.
Permeation of social impact measurement	Establishing a measurable goal concerning the social impact caused by social corporations and improving the environment for monitoring.	<ul style="list-style-type: none"> Mar, 2016 : Cabinet Office working group issued a report on social impact measurement. Jun, 2016 : The "Social Impact Measurement Initiative" platform was launched Jun, 2016 : The National Advisory Board released a social impact measurement tool set.
Clarification of fiduciary liability	Confirming that social impact investments do not violate fiduciary liabilities, institutional investors should also improve the environment	<ul style="list-style-type: none"> Sep, 2015 : The Government Pension Investment Fund (GPIF) signed the United Nations Principles of Responsible Investment (PRI).
Increasing private investors	Creating opportunities for society as a whole by heightening national investment literacy and actualizing potential investors.	<ul style="list-style-type: none"> May, 2015 : The entry requirements for stock investment-type Crowdfunding were relaxed. May, 2015 : The Cabinet Office's "Guide to Furusato Investments" was published, and the utilization of small loans including Crowdfunding was promoted.

 : In Progress
  : Under consideration
  : Not yet started

Proposals for the expansion of social impact investment in Japan
published by the National Advisory Board

INTRODUCTION

I G8 Social Impact Investment Task Force and National Advisory Board

The G8 Social Impact Investment Task Force was established with the objective of globally promoting social impact investment, based on the appeal at the Summit Conference held in June, 2013 by Prime Minister Cameron of the host country U.K. Sir Ronald Cohen, the founder of a British dormant account fund called Big Society Capital, was appointed as the chairman of the aforementioned task force. As a rule, one government representative and one member from the private sector from each of the G8 countries participate in conferences which are held approximately every two months.

From Japan, the Ministry of Foreign Affairs, representing the government, and the Nippon Foundation, representing the private sector, became members as of the 4th Paris Conference of the G8 Social Impact Investment Task Force which was held in April, 2014.

The G8 Social Impact Investment Task Force was succeeded by the Global Social Impact Investment Steering Group (GSG) which was newly formed in August, 2015 with five additional member countries.

Japan's National Advisory Board (hereafter, "National Advisory Board") is a subsidiary organization established in Japan along with the launching of the G8 Social Impact Investment Task Force, and its members are comprised of experts from various sectors throughout Japan. With the objective of increasing the momentum of social impact investment in Japan, active information sharing and discussions are held regarding various matters related to social impact investment.

The National Advisory Board consists of the following members:

Chairman

- Hiroshi Komiyama Chairman, Mitsubishi Research Institute, Inc.

Board members:

- Takehiro Fujimura General Manager, Mitsubishi Corporation CSR & Environmental Affairs Department
- Ken Shibusawa Founding Partner & Chairman, Commons Asset Management, Inc.
- Tomoya Shiraishi CEO, Social Investment Partners
- Junichi Yamada Senior Special Advisor, Japan International Cooperation Agency
- Masataka Uo CEO, Japan Fundraising Association
- Shuichi Ono Executive Director, The Nippon Foundation

II This Report

Following the “Current State of Social Impact Investment in Japan” (July, 2014) and “Proposals for the Expansion of Social Impact Investment” (May, 2015), this report discusses the current state of the social impact investment market in Japan.

Under the main subject, in Chapter I, “What is Social Impact Investment,” the history and definition of social impact investment are discussed from the perspective of global trends. Chapter II, “The Social Impact Investment Market in Japan,” summarizes the form of social impact investment in Japan and market survey reports. In Chapter III, “Efforts to Expand Social Impact Investment in Japan,” the progress of the seven proposals reported in May, 2015 is discussed, while Chapter IV, “Prospects of the Social Impact Investment Market and Necessary Activities,” introduces proposals for the further promotion of social impact investment.

In comparison to the report from July, 2014, this report places more emphasis on the careful investigation of the market scale and analyzes how the social impact investment market has grown since the establishment of the National Advisory Board as well as the background thereof.

More accurate figures were obtained in the market scale survey by conducting surveys and interviews with the players who are putting social impact investment in practice in Japan.

This report was prepared under the supervision of the National Advisory Board, with the surveys and writing of this report carried out by the following persons. We would like to express our appreciation for all of their cooperation in the preparation of this report.

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MAIN SUBJECT

“THE CURRENT STATE OF SOCIAL IMPACT INVESTMENT IN JAPAN”

I What is Social Impact Investment?

1. DEFINITION OF SOCIAL IMPACT INVESTMENT

In this section our objective is to clarify the definition of “social impact investment” as used in this report by considering its background and other types of social investments.

According to Global Impact Investing Network (hereafter, “GIIN”), “Impact investments are investments made in companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.”¹ When selecting where to invest funds, by making a decision based not only on the single bottom line of “financial return,” but on a double bottom line which includes “social impact,”² a “failure” in the financial market is corrected, and a balance in investment between social and economic factors is struck. Both developing and advanced country markets are investment targets, and depending on the circumstances, the financial return margin may be equivalent to or lower than that of a normal market.

The growth of the social impact investment market stimulates capital investment in initiatives which address urgent social issues. The field is diverse, and it includes a sustainable food supply, clean technology, microfinance, medicine and education.

As the market for social impact investment is in a nascent stage, when it comes to the definition of social impact investment, there are some areas which are vague or inconsistent in international reporting. In Chapter II of this report, the social impact investment market scale in Japan was measured; however, the method of calculating the market size and the scope thereof vary in the reporting conducted in various countries.

In addition, ESG (Environmental, Social and Governance) investment closely resembles social impact investment in terms of the type of investment. However, there is a differentiation between them based on the GIIN impact investment concept of the “Investor’s intention to have a positive social or environmental impact through investments.” If investment with the sole pursuit of financial return is described as “general investment” and investment with the sole pursuit of social return is described as a “donation” (form of funding), the classification of the intermediate investment methods is as shown in Figure I-1³. The boundary between “intention to make a social impact” and “active interest in social impact” referred to here is vague, but if the aforementioned concept is applicable, both can be classed as social impact investment. Although there are no restrictions in the investment method, it can be said that while there is a greater risk in stock investment than in bond investment, at the same time, it can achieve higher leverage through management. Among social impact investments as well, there are more stock investments than bond investments in investments with a greater degree of active orientation toward social impact.

¹ GIIN website

² The bottom line mentioned here refers to the bottom of the profit and loss statement, the final line of the financial statement. In other words, it is the final performance of a company or organization, which states the ordinary profit or net income.

³ “2014 Impact Investing Report” (Finance in Motion)

Details of the social impact investment market in Japan shall be discussed in Chapter II. This section will consider the definition of social impact investment, with the above-mentioned concept as a reference and individual cases carefully examined one by one.

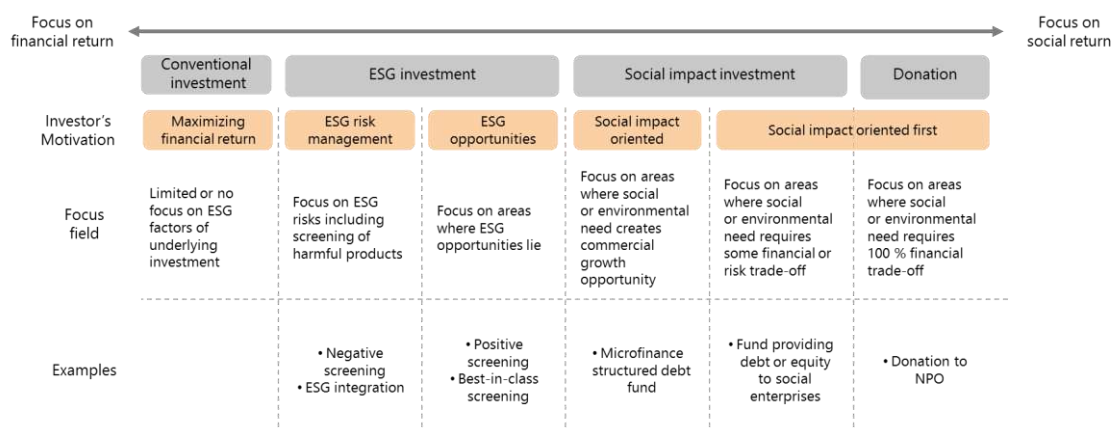


Figure I -1 Classification of investment methods

2. HISTORY AND BACKGROUND OF SOCIAL IMPACT INVESTMENT

Social impact investment is a type of investment intended to solve environmental and social issues with a medium-to long-term perspective, and is often implemented in fields that are difficult for commercial enterprises prioritizing financial returns to take part in. Funder and recipients as well as intermediaries all have various needs, and the market is gradually expanding. In this section, we will discuss the history and background of social impact investment in various countries, in particular, in the U.K. and the U.S., which exercise a strong presence in the social impact investment market.

As the need for a market which funds initiatives for social issues gradually grew over the last 20 years, especially among those concerned with the financial market and the solution of social issues in Western countries, the social impact investment market took form. The border between activities focusing on social needs and economic needs became indistinct, and particularly since the global financial crisis in 2008, it became evident that there was a need for a new investment approach to construct a sound society.

“Social impact investment” came into use as a specific term in 2007, when the Rockefeller Foundation coined the phrase at a conference held that year⁴.

The oldest case of social impact investment in the history of Europe goes back to the establishment of a study group at the Triodos Bank in Netherlands in 1968, which concluded that there was a need for financial institutions which benefit both the environment and society, resulting in the establishment of a foundation which funded social enterprises in 1971.⁵

A major turning point was when Sir Ronald Cohen took the lead in establishing a social investment task force in UK. Based on this task force, various new foundations, organizations and enterprises directed at the social impact investment market primarily in the U.K. were established, and activities increased. Thereafter, the first fund specializing in community investment in the U.K., Bridges

⁴ The Rockefeller Foundation website

⁵ Jan.2009 “Investing for Social & Environmental Impact” (Monitor Institute)

Ventures, was established in 2002, social investment tax reduction through CDFIs commenced,⁶ and Charity Bank was founded. In 2004, the operation of a new type of corporation called a Community Interest Company (CIC) commenced. Furthermore, in 2010, the first social impact bond⁷ (hereafter, "SIB") in the world was set up.

In particular, it can be said that the social impact investment market in the U.K. which has been leading the global market, has gradually been expanding with the establishment of various intermediaries as the core. In addition, it is noteworthy that through the support of social organizations involved in public service provision led by the central government, social investment projects have increased. This reflects how governmental cooperation plays a vital role in the development of the social impact investment market.⁸

In the U.S, the next largest market of social impact investment, the Ford Foundation took the lead in introducing Program-Related Investment (PRI) and Mission-Related Investment (MRI) in 1968, and it is thought that this played a contributing role in expanding the scope of the market. PRI refers to a mechanism in which foundations use a portion of their basic funds to support socially-oriented enterprises through methods such as investment and loans. Per U.S. tax codes, 5% of total assets must be used on "business expenditures" every year, but because the amount of investment and lending related to programs which meet the fixed requirements is treated as "expenditures," foundations which meet the 5% rule while investing assets provide funding to business linked to the management of such programs, low-income housing projects, and so on.⁹ Unlike PRI, MRI is not specified by the IRS, so investments cannot be calculated as expenditures, but its merit is that there is no need to set a rate lower than the market rate. Therefore, foundations which would like to pursue both the realization of their individual mission and a financial return on par with the market rate are able to choose MRI.¹⁰

From the 1980s, Socially Responsible Investment (SRI) became popular, and through the passing of the Riegle Community Development and Regulatory Improvement Act in 1994, promoting the revitalization of the regional economy through CDFIs. By 2000, the PRI market had already exceeded 30 billion dollars.

By around 2012, the SRI market had grown to a scale of 3.7 trillion dollars, and the first SIB was established in the United States.

From a global standpoint, the social impact investment market is still in its early stages, and it is thought that it will continue to grow according to the needs and trends of the funders, recipients, intermediaries and governments in the future. As mentioned in the U.K. report, the organization of a central government-led system is thought to play a vital role in dynamically moving the market.

3. NEED FOR SOCIAL IMPACT INVESTMENT IN JAPAN AND ITS BACKGROUND

In this section, we will first discuss why social impact investment is necessary in Japan, and then refer to its social context. As indicated in Figure1-2, we will consider the trends of the funders,

⁶ CDFI: Community Development Financial Institutions

⁷ Social Impact Bond: Details will be discussed in III-2 "Introduction of SIB and DIB"

⁸ Sep. 2014 "Building a Social Impact Investment Market, The UK Experience" (UK's Presidency of the G8)

⁹ 2015 "The Frontline of Social Impact Investing in Japan" (The Nippon Foundation)

¹⁰ May 2015 "JFC Views No. 80" (Japan Foundation Center)

recipients, intermediaries, and so on with regard to the ecosystem supporting social impact investments (related parties and the legal system).

It can be said that due to the social context involving issues attributed to the rapidly decreasing birthrate and aging population in Japan and Japan being a nation which is prone to natural disasters, the needs of each player have increased. Despite this, there has not been any movement to promote social impact investment led by the central government. Therefore, efforts which lobby the central government continue to be essential.

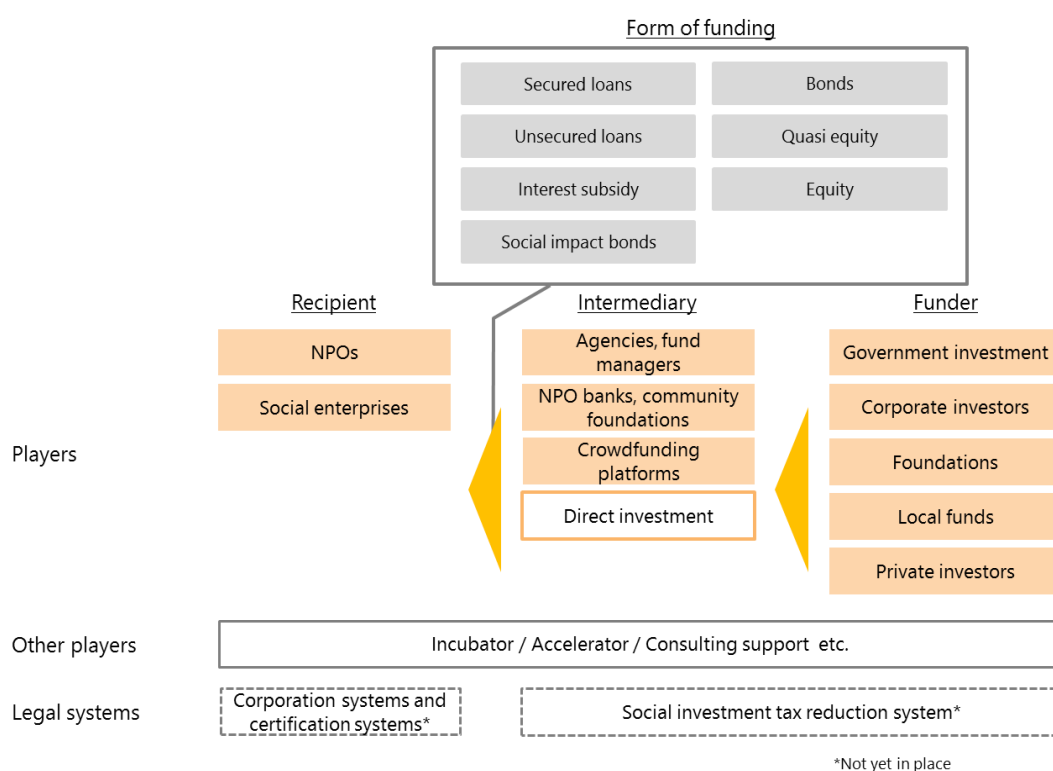


Figure I-2 Social impact investment ecosystem

a) Social context

Increase in social welfare expenditures due to decreasing birthrate and aging population

As with other developed nations, Japan's social issues include a decreasing birthrate and an aging population, caring for persons with disabilities, a decline in educational standards, shrinking nuclear families, a rigid criminal justice system, increasing unemployment, and lifestyle-related diseases. Among these, the most pressing issue confronting Japan is that of the decreasing birthrate and aging population, and the pace at which the aforementioned is progressing is the most rapid in the world, with 1 in 3 being 65 years or older by 2050. The population of Japan, which was approximately 128,060,000 in 2010, is estimated to decrease to approximately 116,610,000 by 2030, and approximately 97,080,000 by 2050. The growth rate of the actual GDP continues to be low after the end of the "Bubble Era" in 1991 that led to a 20-year "lost period." The real GDP was 1.8% in 2012

and 1.6% in 2013. Government spending reflects this harsh reality.¹¹ As Figure I-3 shows, the ratio of social welfare-related expenditures including elderly care, medical care and unemployment insurance has a large impact both in the amount and its percentage of overall spending. Furthermore, the disparity in income levels which is becoming more widespread in recent years has the potential of imposing a further burden on social welfare expenditures, such as in the expansion of an economic safety net provided for low-income earners and the unemployed.

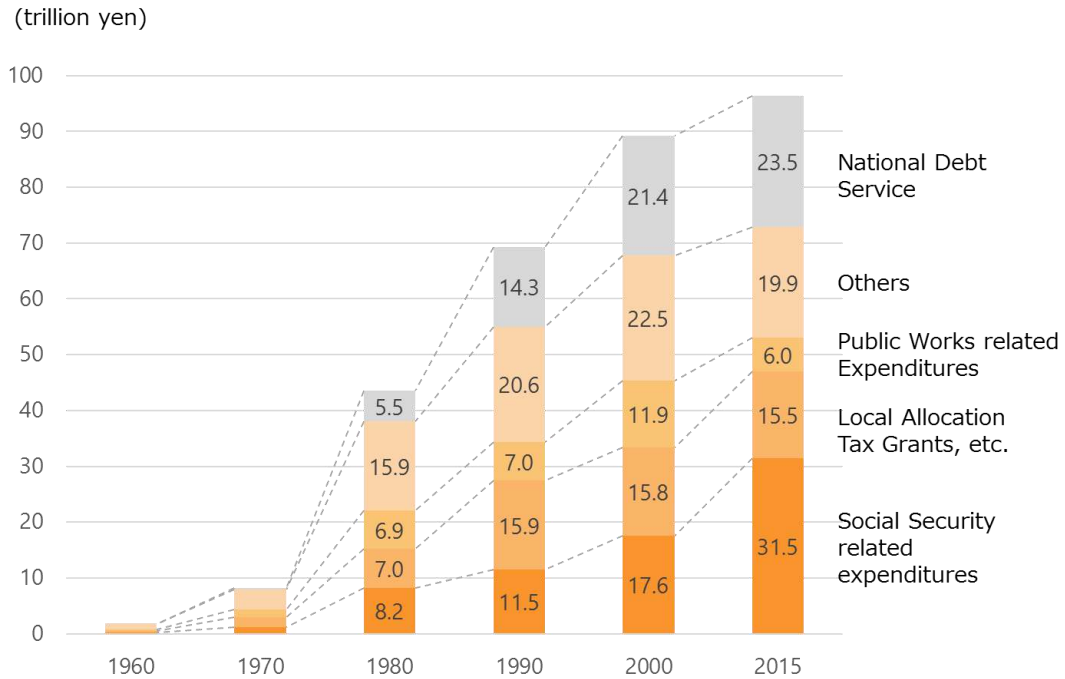


Figure I-3 Japan's governmental expenditures

Widening social structure gap

As types of employment continue to diversify, disparity in income levels among the productive age group (15 to 64 years old) is growing. Although Japan was once labeled a country of "all middle-class people," the disparity in the income levels of its citizens is becoming a cause for concern. Based on these changes in the social structure, the construction of a more sustainable social structure which increases efficiency in the social welfare system and stimulates the regional economy is an urgent issue now and will continue to be into the future.

The rapid increase in social welfare expenditures creates a need for the introduction of social impact investment. The government being required to provide the necessary services in order to address the increasing social service demands is difficult both from a financial and a capability perspective. Amid such a situation, a cost-effective business proposal including service provision by non-profit organizations and social enterprises would be a beneficial solution both for the non-profit organizations providing the services and for the beneficiaries. This would serve as an excellent

¹¹ "Japan's Fiscal Condition 2015" (Ministry of Finance)

solution to cope with the unprecedented difficulties Japan is presently facing, and there is great anticipation for more effective, highly efficient services utilizing social impact investment.

Context as a nation prone to natural disasters

The relatively frequent occurrence of natural disasters is a unique aspect of Japan’s social and economic background. For example, 1995, the year in which the Great Hanshin-Awaji Earthquake struck, has been called the “beginning year of volunteerism” in Japan, and this trend was not transient in nature. Many residents took part in disaster volunteer work, mostly through volunteer organizations. As a result of increasing calls to strengthen the status of existing volunteer organizations, these organizations were granted a legal status, and the “Act on Promotion of Specified Non-profit Activities (NPO Law)” was adopted in 1998. The number of specified non-profit corporations (hereafter “NPOs”) has been steadily increasing, and as of the end of July, 2016, 51,100 NPOs have been authorized¹², and among the authorized NPOs, 946 of them enable a certain amount of tax breaks for donors.

Then, on March 11, 2011, the Great East Japan Earthquake with the subsequent tsunami disaster struck, resulting in the loss of more than 15,000 lives. It also caused the Fukushima No. 1 Nuclear Power Plant Disaster, which is still being dealt with to the present. 2011 became another turning point for non-profit organizations in Japan and for social impact investment.

Since 2011, not only has the number of NPOs increased, mainly in the three disaster-stricken prefectures, but the flow of funds has also changed significantly¹³. Immediately after the disaster, a large sum of donations to disaster victims and organizations were sent both from within Japan and overseas. Assistance from overseas came not only from governmental and international institutions but also from private companies and NGOs, and it is said that a total of 164 billion yen of monetary support was received just in the first year. Donations for the support of earthquake victims and reconstruction is estimated to be 600 billion yen. This corresponded to more than half of the total donations in 2010.

Furthermore, there were not only direct donations, but also the establishment of low-interest rate loan structures and various subsidies directed at NPOs and companies engaged in the disaster reconstruction efforts. There were multiple cases in which such activities were not limited to emergency aid, but took off from that point to become a form of social impact investment. Such cases will be referred to in Chapter II.

b) Recipient trends

Growth of Japan’s non-profit organizations

The legal status of non-profit organizations in Japan has been strengthened in the last 15 years. As mentioned above, the track that non-profit organizations had been on changed after the Great Hanshin-Awaji Earthquake in 1995 and the Great East Japan Earthquake in 2011. The number of certified NPOs has gone from approximately 200 as of March, 2011 to approximately 950 as of 2016.

¹² Cabinet Office Website

¹³ “NPO Capacity Development Project-Project Evaluation Report” 2014 (Japan NPO Center)

There are various types of legal entities in Japan's non-profit sector, and no single definition for a non-profit organization exists. The point common to all non-profit organizations is that a low corporate tax rate is applied to them and that they are subject to donation deduction.

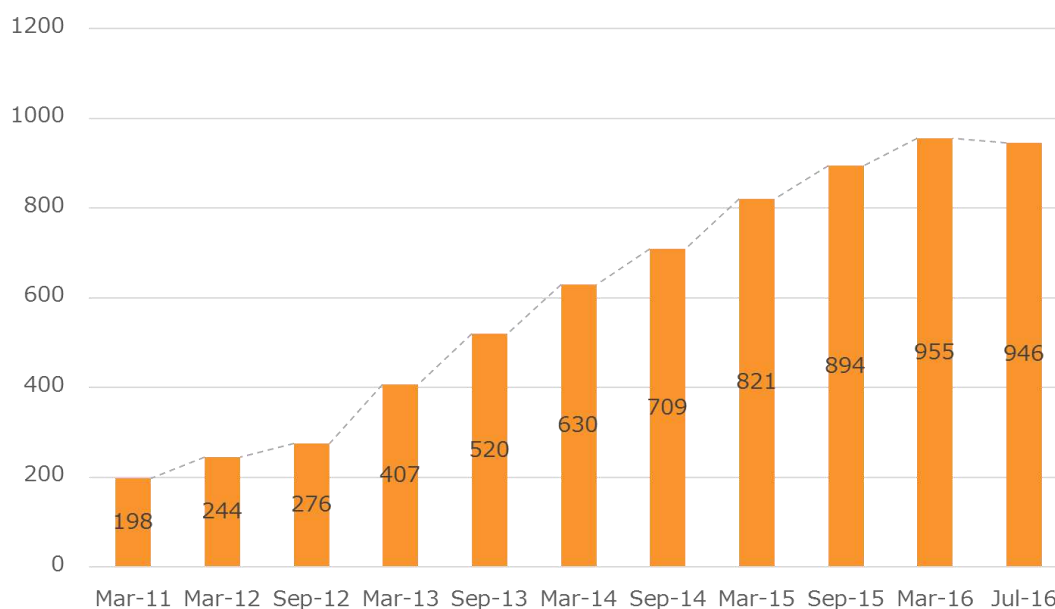


Figure I-4 Change in the number of certified NPOs (including provisionally-certified corporations)

Development of a system for Japan's non-profit organizations

Although the increase in the number of organizations has constituted a great change, a particular major turning point was when non-profit organizations began to function as public service providers.

The legal status of an NPO began to be granted with the adoption of the Act of Promotion of Specified Non-profit Activities in 1998, with the objective of promoting the sound development of citizens' voluntary participation in community service programs, including volunteer activities. In April, 2012, a major legal amendment was made that focused on measures linked to the reinforcement of NPO foundations' financial underpinnings.

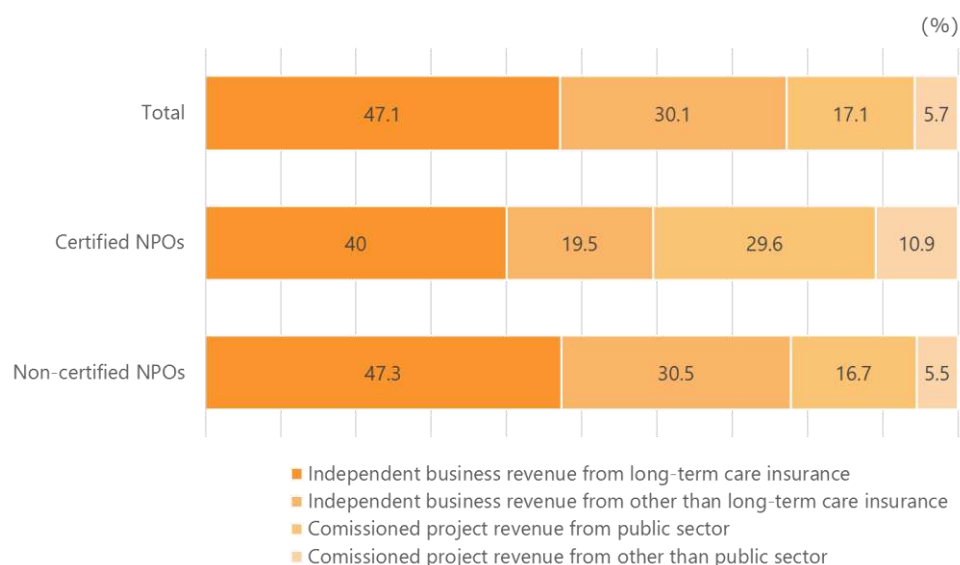
From the beginning of the long-term care insurance system in 2000, non-profit organizations have been providing public services along with private companies. Since 2001, amid the promotion of administrative and decentralization reforms, NPOs began to receive many commissioned projects from the government. For example, in 2003, legal amendments regarding the designated administrator system were enacted, and contracting the operation of public facilities such as community centers, libraries, sports facilities and parks to NPOs and private organizations such as corporations became widespread. Along with this movement, financial institutions funding NPOs also began to emerge, and the foundations of NPO business development began to take shape, for example with the establishment of funding systems in local governments. There have been reports indicating that approximately 20% of NPO income is derived from government-commissioned projects, indicating that the government is a source of revenue for business operations run by non-profit organizations¹⁴. Figure I-5 shows the revenue breakdown of non-profit organizations. Donations are thought to constitute a large part of the revenue breakdown of both authorized and provisionally authorized corporations, which is attributed in part to the fact that donation exemption or tax exemption is applied to authorized non-profit corporations. In addition, the breakdown of operating revenue is indicated in Figure I-6. Operating revenue constitutes the greater part, and out of that, long-term care insurance takes up approximately 50%.



Figure I-5 Total business income breakdown of NPOs¹⁵

¹⁴ "Field Survey Report on Specified Non-profit Organizations 2013" (Cabinet Office)

¹⁵ Ibid.

Figure I-6 Operation revenue breakdown of NPOs¹⁶

On another front, there is a trend in which commissioning public services to the public sector is considered to be a method of administrative cost reduction, and there are cases in which non-profit organizations are considered low-cost service providers. The primary deciding factor on the part of the government administration with regard to the service provider is often the bidding price. The majority of government contracts are by fixed-price in nature, and with the exception of a few projects, performance-based payment is not incorporated and fixed payment is made based on the service provided. Therefore, we are at the stage where there is virtually no assessment of the quality of administration-based projects and the social impact or implementation thereof. Moreover, government payment for contracted services is made primarily for the project implementation expenses and often does not include the overhead, thus preventing the contracted organization from strengthening its operational capabilities. This issue needs to be addressed in the future.

In October, 2015, the credit-guarantee system for NPOs was launched. The credit-guarantee system allows small and medium-sized enterprises to have their local credit guarantee corporation be their guarantor when procuring funds from financial institutions, facilitating the obtaining of loans. This system has improved the financing environment of NPOs which formerly had difficulties in obtaining large loans. According to the Small and Medium Enterprise Agency, 166 NPOs utilized the credit guarantee system in the 3 months to the end of December, 2015, for a total of 1.35 billion yen¹⁷. There are NPOs which have already received loans in units of tens of million yen, enabling a proactive development of their operations. NPO Sodateage-Net, which supports young people entering the work force, received a 10 million-yen loan from the Tama Shinkin Bank which was allocated to funding for recruitment. Meanwhile, an NPO called Tasukeai-Izumi, which is involved with initiatives such as temporary care for the elderly, was granted a 10-million yen loan after

¹⁶ "Field Survey Report on Specified Non-profit Organizations 2013" (Cabinet Office)

¹⁷ February 18, 2016 "Small and Medium Enterprises/Regional Economy 1: NPO Corporation Credit Guarantee Amount becomes 1.3 billion" (Nikkan Kogyo Shimbun)

receiving approval for a guarantee from Shinpo Yokohama, a credit guarantee corporation in Yokohama City. The system reform is thought to be advantageous for financial institutions as well, as it is connected to the cultivation of new borrowers while minimizing the risk of irrecoverable debt.

According to a 2013 report from the Cabinet Office, out of a total of 13,130 non-profit organizations who responded to the survey, 3,301 (approximately 25%) of the organizations borrowed funds, with the approximate average amount of the loan being 5.6 million yen and the overwhelming majority of the lenders being individuals. By comparison, in the 2015 report, out of 1,767 who responded, 581 non-profit organizations (approximately 33%) borrowed funds, with an approximate average amount of 7.5 million yen. As for the lenders, the percentage of individual lenders had decreased in comparison with the 2013 numbers, while the percentage of financial institutions increased.¹⁸ The 2015 report was aggregated from August to October, so it cannot be said that the start of the credit-guarantee system had any direct influence, but little by little, raising funds for non-profit organizations via financial institutions is becoming easier.

Growth of Japan's social enterprises

While growth is seen in the non-profit sector, there is gradual growth in organizations which are limited corporations in terms of legal structure but have a mission to solve social issues. According to the “Report on the Aggregated Activity Size of Social Enterprises in Japan,” which was issued by the Cabinet Office in 2015, there are 205,000 social enterprises and their gross added value is estimated to be 16.0 trillion yen (to GDP ratio 3.3%)¹⁹. This figure is somewhat smaller than that of the non-profit sector. There are 5,776,000 paid employees and revenue from social enterprises totals 10.4 trillion yen. According to the definition of social enterprise in this context, the following 7 requirements must be met:

- 1 It addresses the “solution/improvement of social issues through business”
- 2 The main objective of the business is not the pursuit of profit but the resolution of social issues
- 3 The profits are largely to be reinvested into the business and not paid out as investment or dividends to shareholders (condition for for-profit corporations only)
- 4 Of the profits, the ratio paid out as dividends to investors and shareholders is to be 50% or less (condition for for-profit corporations only)
- 5 The income from business is 50% or more of the total income
- 6 Of the business income, the revenue from public insurance (medical/nursing care) is to be 50% or less
- 7 Of the business income (revenue from sources other than subsidies, membership fees and donations), the revenue from projects commissioned by the government is to be 50% or less

¹⁸ “Field Survey Report on Specified Non-profit Organizations 2013” (Cabinet Office)

¹⁹ May, 2015 “Survey on the Aggregated Activity Size of Actors in Society of Mutual Assistance” (Mitsubishi UFJ Research & Consulting)

According to the "Investigative Research Report on the State of Social Enterprises" issued by the Cabinet Office in 2015, among small and medium-sized enterprises, social enterprises have a higher level of stability in both revenue and employment and are of a larger average scale. There are many companies that do not merely function as receptacles for employment, but also recruit and train a variety of personnel and are regarded as contributing to the creation of new forms of employment.²⁰

In 2016, two companies received certification as a "B Corporation" from B Lab, an American non-profit organization, for the first time in Japan: Silk Wave Industries in March, 2016 and Ishii Zoen in May, 2016. There are many small and medium enterprises based in local regions. Therefore, there is a need for a social certification system which to a certain degree addresses prospects such as the revitalization of local industries and the securing of personnel.

c) *Funder trends*

Flow of funds to Japan's non-profit organizations - the donation market

In comparison to other developed countries such as the United States and the United Kingdom, the donation market in Japan is relatively small. However, it is growing at a rapid pace, and the donation market which had been 700 billion yen in 2008 became 1.2 trillion yen in 2012, increasing twofold in just 5 years. In 2013, individual donations totaled 740.9 billion yen and corporate donations totaled 698.6 billion yen, with a total of 1.4395 trillion yen, manifesting further growth.

What piqued public awareness of social contribution, which had been on an upward trend since the 1990s, was the Great East Japan Earthquake of 2011. Until then, the total of individual donations hovered around 500 billion yen; however, in 2011, an additional 500 billion yen was gathered for disaster relief in addition to the approximately 520 billion yen in ordinary donations. In 2012, the total of individual donations declined to approximately 700 billion yen; however, in 2013, the figure increased again to 741.9 billion yen. Excluding the amount collected for disaster reconstruction, steady growth can be observed since 2009. This growth is attributed to the widespread use of the Internet, social network services which are used for the promotion of non-profit activities, and crowdfunding, which makes donations via the Internet possible.²¹

Japan's wealthy class has overcome the sudden drop in share prices which hit a peak in 2007 prior to 2008-2009 and are rising in numbers. It is said that as of 2013, households with net financial assets of 100 million yen numbered around 1 million (of this number, households of the high-net-worth with net financial asset holdings of 100 million yen or more numbered 953,000, and households of the ultra-high-net-worth class with net financial assets of 500 million or more numbered 54,000)²². Comparing this figure to that of 2011, the number of affluent households increased by 24.3%, and the significant increase in the wealthy class is considered to be largely attributed to the high percentage of shares and investment trust in their financial assets.

²⁰ March, 2015 "Final Research Report on the State of Social Enterprises in Japan" (Mitsubishi UFJ Research & Consulting)

²¹ 2015 "Donation White Paper 2015" (Japan Fundraising Association)

²² November 18, 2014 News Release (Nomura Research Institute)

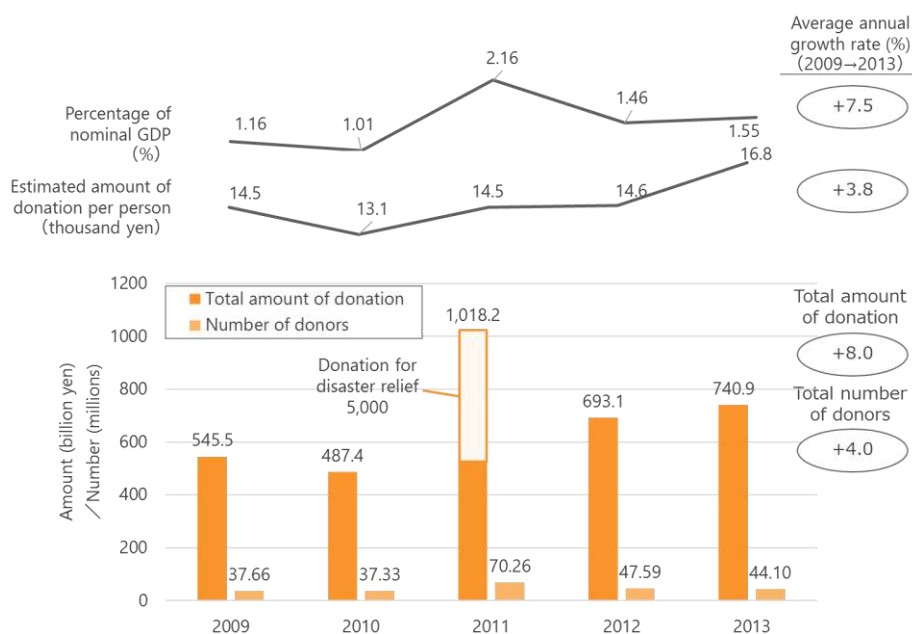


Figure I-7 The individual donation market in Japan²³

In recent years, corporate donations have increased markedly, from 478.5 billion yen in 2007 to 716.8 billion yen in 2011. The growth rate thereof exceeds the annual average of 10%.

Corporate donations in 2014 were 710.3 billion yen, growing steadily with an increase of about 700 billion yen from 2010. When estimating the scale of corporate donations by field, the areas of education and research are the highest at 237.8 billion yen, while culture and recreation follow at 131.3 billion yen and social services, including disaster relief, are at 991 billion yen.²⁴

Companies have not only contributed in a vital way to non-profit activities but have also taken the lead in the social impact investment sector in Japan. Many companies have provided support to social projects through their own CSR programs and have developed core businesses by investing their own funds with a strong sense of social mission. Recently, some companies have begun investing in social enterprises with the goal of obtaining both financial and social returns. These examples shall be discussed in detail in Chapter II.

Additionally, social impact investment with donations as capital are also becoming widespread. In April, 2016, ARUN, a social impact investment company targeting developing countries, began social impact investment services aimed at such countries with donations received from companies as capital, called "crowd social investment."²⁵ With conventional donations, only short-term support is possible. However, sustainable solutions for social issues are aimed for by providing support via an "investment" arrangement based on funds collected through donations. Although methods and funding recipients vary somewhat, other similar efforts using donations as capital are

²³ Prepared by author based on 2015 "Donation White Paper 2015" (Japan Fundraising Association)

²⁴ 2015 "Donation White Paper 2015" (Japan Fundraising Association)

²⁵ ARUN Seed "Crowd Social Investment" Website

carried out by Japan Venture Philanthropy Fund and Relationship Capital of Japan, which will be discussed in detail later.

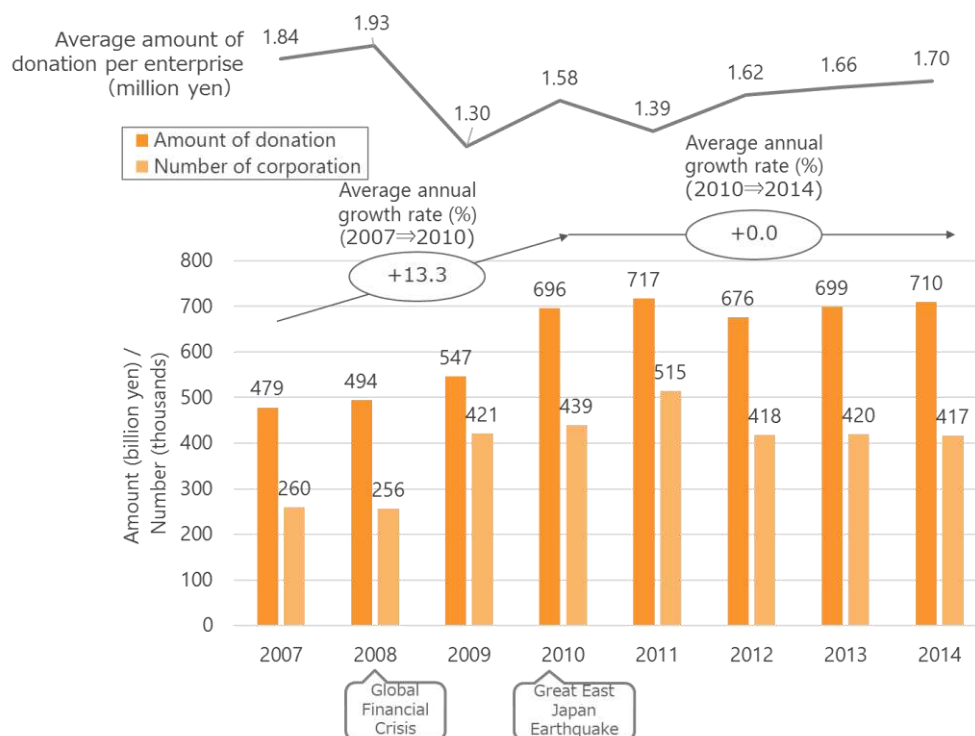


Figure I-8 Annual change in corporate donations²⁶

Furusato Tax (Hometown Tax) System

The Furusato Tax (Hometown tax) System is an individual resident tax system which has been designed as a "donation system" for prefectures and municipalities. Citizen donations exceeding 2,000 yen qualify for a residential tax exemption. Deliberations began in 2007 and the system was launched in 2008. As of January 1, 2015, the residential tax refund which was formerly around 10% increased to 20%, and due to the "one-stop exception system" which began on April 1 of the same year, the final income tax returns which were required became unnecessary, resulting in a considerable increase in donations. As Figure I-9 indicates, the Furusato Tax System performance in 2015 was 165.3 billion yen, with 7.26 million Furusato tax payments. In the same year, of the municipalities which received large amounts, the receipt for 1 municipality exceeded 4 billion yen. The reason why the donation amount differs according to the municipality is due to differences in the return gifts for the donation. Of the 1,796 municipalities, 1,618 municipalities sent gifts in return,

²⁶ Prepared by author based on 2015 "Donation White Paper 2015" (Japan Fundraising Association) and National Tax Agency website data

constituting 90.5%. Many municipalities send items like local agricultural produce or traditional crafts, with the aim of promoting the local area.²⁷

On the other hand, with the Furusato Tax System, the higher the annual income, the larger the amount used to reduce taxes. Due to the entire donation, excluding 2,000 yen for the service charge, being deductible, the tax reduction effect is greater for the wealthy class. Competition among municipalities to gather donations from the wealthy is intensifying, since the amount of donations differ significantly depending on their donations. It has been suggested that there is room for improvement regarding this tax scheme, including the extreme tax reduction benefits for the wealthy.²⁸

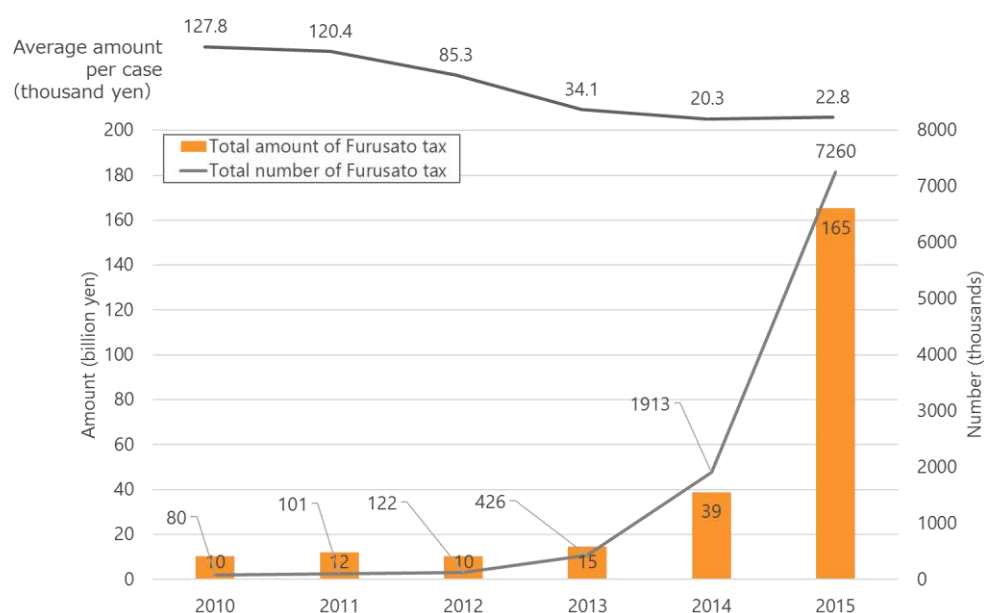


Figure I-9 Furusato Tax System - amount and number received (national total)²⁹

²⁷ June 14, 2016 "Current State Survey Results on the Furusato Tax Scheme" (Municipality Tax Policy Division, Local Tax Bureau)

²⁸ July 29, 2015 "Donations Too Good to be True ; Wealthy Class 'free food budget'" (Nikkei Shimbun)

²⁹ June 14, 2016 Prepared by author based on "Current State Survey Results on the Furusato Tax Scheme" (Municipality Tax Policy Division, Local Tax Bureau)

Table I-1 Relationship between annual income and Furusato Tax System deductibility limit

Annual income (in units of 10,000 yen)	Deduction limit (in units of 10,000 yen)
300	3.1
500	6.7
700	11.8
900	16.4
1,000	18.8
1,500	39.4
3,000	106.2
5,000	209.2
10,000	436.2

Inheritance donations

Based on the revision of the specified non-profit corporation system in 2011, inheritance bequeathed to specified NPOs was excluded from taxable income. On the other hand, there has been a rise in inheritance tax, with basic deductions reduced from 50 million to 30 million yen and the deductions per heir being adjusted from 10 million to 6 million yen, resulting in a 40% decrease in basic deductions.³⁰ The inheritance tax rate depends on the amount bequeathed; the rate is 15% for 30 million yen or less, 20% for 50 million or less, and 30% for 100 million or less. While it is estimated that Japan's inheritance assets are approximately 40 trillion yen and there is a tax deduction advantage in inheritance donations, relatively few are taking advantage of this arrangement in Japan, with the total inheritance donation being 740 billion yen in 2009.³¹

On the other hand, according to a questionnaire regarding inheritance aimed at those 40 years and older, approximately 20% have a keen interest in inheritance donations.³² With the increasingly aging society and the inheritance asset market growing at a constant pace, the inheritance donation market will no doubt expand steadily.

Donations and subsidies from foundations

There is no distinct concept of grant-making foundations in Japan. Per the public-interest corporation system enacted in 2008, the following corporation types coexist: general incorporated foundations and associations, public interest incorporated foundations and associations and under the former law, corporations (foundation, association). According to a report submitted by Japan Foundation Center in 2015, regardless of the corporation type, the definition of a grant-making foundation is one that meets the following criteria: (1) provides funding for research and projects conducted by individuals and groups, (2) provides scholarships for students and exchange students, (3) presents awards and prizes to individuals and groups for their superior performance³³. As shown in Figure I-10, the number of annual establishments of grant-making foundations reached its peak in 1990, being on a downward trend thereafter.

³⁰ September 29, 2014 “Inheritance assets on the increase with the aging society” (Dai-ichi Life Research Institute)

³¹ 2013 “Donation White Paper 2012” (Japan Fundraising Association)

³² 2015 “Donation White Paper 2015” (Japan Fundraising Association)

³³ 2015 “Current State of Japan's Grant-making Foundations” (Japan Foundation Center)

The total amount of grants has been on a downward trend since 1994, leveling off after 2005, and then being on somewhat of an increase after 2011. The decrease in grant money is attributed to the effect of the long years of Japan's extremely low interest rate policy and to the severe funding situation of grant-making foundations which has remained unchanged to the present.

On the other hand, according to a survey conducted on 938 incorporated foundations, although the number of incorporated foundations with total assets of 3 billion yen or less makes up for 73%, approximately 10% have total assets exceeding 10 billion yen.³⁴ Of the total assets of the grant-making foundations, approximately 70% have assets of 10 billion yen or more, and the total assets of all grant-making foundations are 4.5 trillion yen. When examining the changes of 84 foundations with data from over 27 years, total assets, which had been 440 billion yen in 2005, rose to 1 trillion yen in 2014.

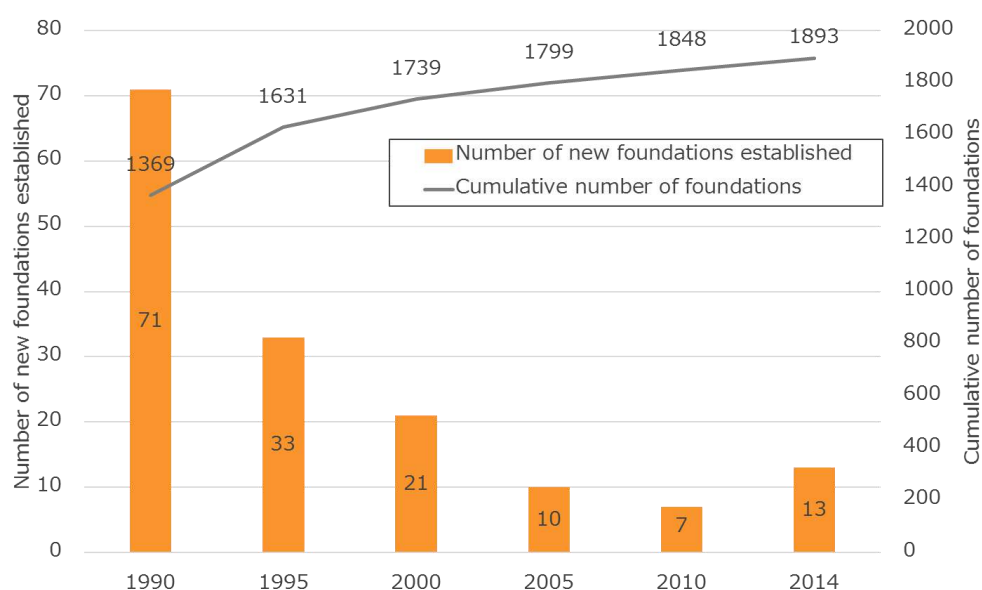
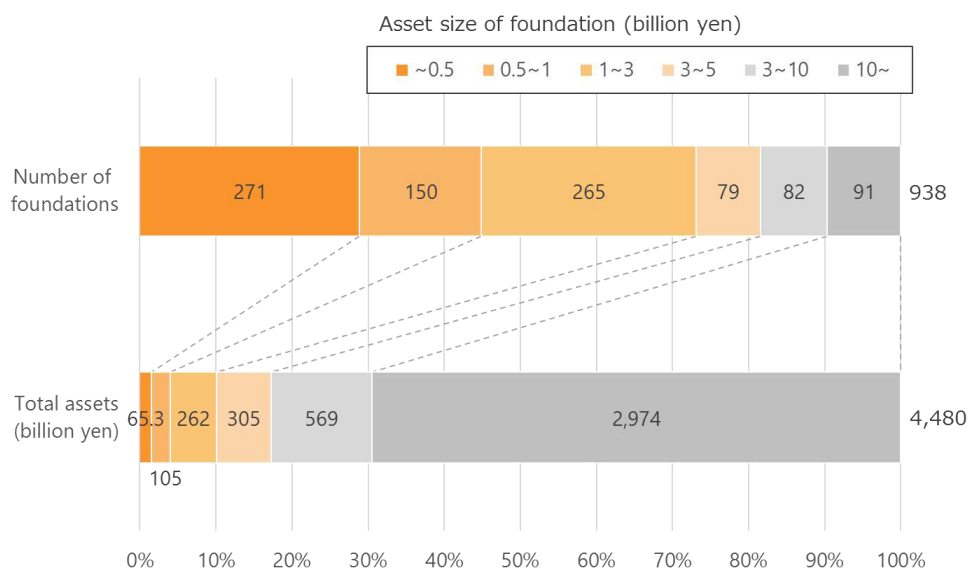
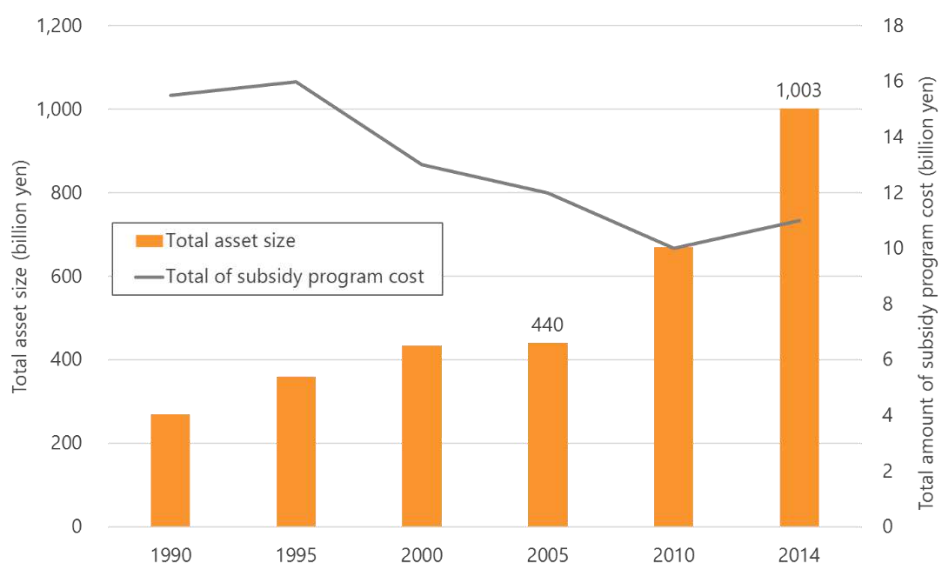


Figure I-10 Change in the annual number of foundation establishments from 1990 to 2014³⁵

³⁴ 2015 "Current State of Japan's Grant-making Foundations" (Japan Foundation Center)

³⁵ Ibid.

Figure I-11 Number of foundations according to asset size and total assets³⁶Figure I-12 Asset size of 84 foundations and changes in subsidy program costs (detailed figures are unknown)³⁷³⁶ Prepared by author based on 2015 "Current State of Japan's Grant-making Foundations" (Japan Foundation Center)³⁷ 2015 "Current State of Japan's Grant-making Foundations" (Japan Foundation Center)

Spread of SRI (Socially Responsible Investment) / ESG Investment

The SRI market scale in Japan, including ESG investment, cannot be described as adequate in size when compared to Western countries. Based on information from the Global Sustainable Investment Alliance (GSIA), the SRI market scale of various countries is as shown in Figure I-13.³⁸ Asia occupied 0.6% of the market in 2012 and grew to 0.8% in 2014, still a minor presence.

There was a landmark event regarding ESG investment in Japan in September, 2015. The Government Pension Investment Fund (GPIF) signed the United Nations Principles for Responsible Investment (UNPRI). It is anticipated that this move will stimulate investors' interest in ESG.

UNPRI is a global platform for ESG investment established in 2006, with the UN being the prime mover. UNPRI stipulates principles to guide the decision-making of institutional investors so as to reflect the ESG perspective. Those signing the UNPRI include asset holders such as pension funds including the GPIF (289 institutions), asset managers which manage the aforementioned assets (916 institutions), and service-providing institutions (189 institutions). As of September, 2015, 1,394 institutions have signed the UNPRI. Those who have signed are required to give consideration to non-financial information (environmental, social, and corporate governance) in the investment process in addition to financial information.³⁹

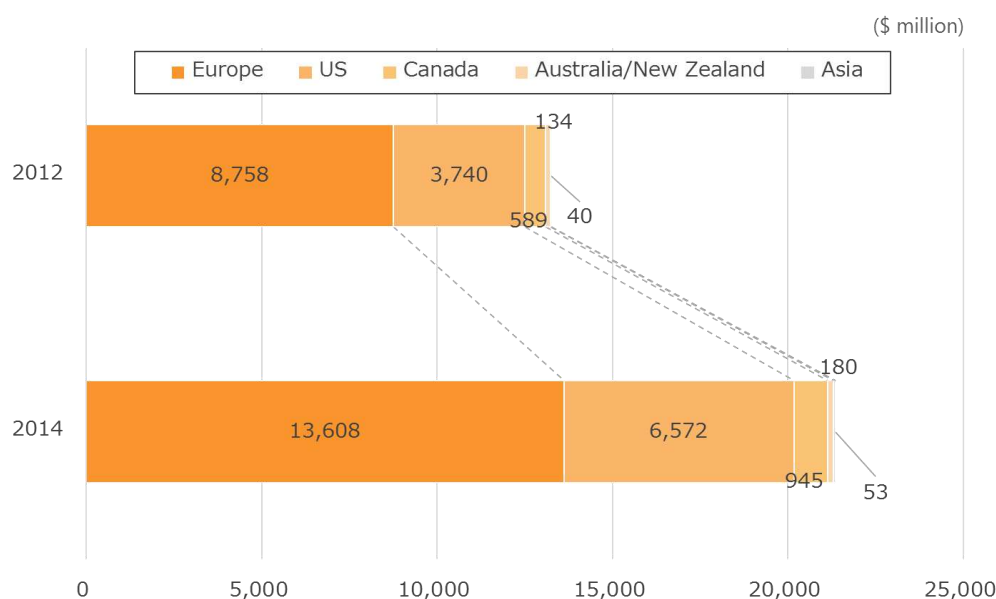
Due to this signing, not only will the ESG be considered in the management of the GPIF, but it will also impact the external asset management institutions. The GPIF requires the external asset management institutions to sign the UNPRI and report on its activity. If they do not sign, a reason for not doing so will be demanded, and if no legitimate reason exists, they must sign and implement the ESG investment.

In addition, because the GPIF is a benchmark for other types of public and corporate pension funds, if it becomes a standard for investment evaluation in the future, changes can be expected to occur in listed companies' management policies and their stance toward information disclosure. There is the possibility that not only financial information, but also information on a wide range of corporate activity such as ESG will be disclosed proactively to investors. With further progress in research and analysis, it is anticipated that ESG will spark the interest of more investors. ESG investment is also thought to lead to improvement in medium to long-term investment income and risk reduction, and will affect long-term investments in the development stage of the market.⁴⁰

³⁸ 2014 “Global Sustainable Investment Review” (GSIA)

³⁹ October, 2015 “The impact of GPIF signing the PRI” (Daiwa Institute of Research, Ltd.)

⁴⁰ Ibid.

Figure I-13 SRI market scale in various regions around the world⁴¹

Spread of social impact investment as general financial products

General investment markets have also begun to handle some financial products related to social impact.

In September, 2015, BlackRock Japan Co., Ltd., the Japanese subsidiary of BlackRock, a globally-renowned investment trust company, set up the "BlackRock impact equity fund" with impact investment as its theme. This fund is Japan's first impact investment targeting shares in a developed country, selecting companies with social impact by utilizing unique analysis models and the latest technology such as big data. The fund focuses on the areas of health, the environment, management status, in addition to bolstering research on diseases, strengthening initiatives geared toward environmental conservation, the possibility of reducing litigation, reducing immoral business activities, and the improvement of business culture,⁴² investing in companies with a greater motivation toward social impact among ESG investment options. On the other hand, the companies who receiving funding through BlackRock are so-called listed companies, which means that they are not included in the calculations of social impact investment market scale in this report.

Commons Asset Management, Inc. is an investment trust company founded in 2007 which specializes in long-term investment. The total assets under management exceed 24 billion yen (as of the end of August, 2016). The company handles the "Commons 30 fund" which specializes in long-term investment and focuses also on non-financial information, and "2020 Vision," an active fund which invests in companies which are making a "change." In the Commons 30 fund, there is a program called "SEED Cap" which supports social entrepreneurs. This program donates 1% of the trust fee to support social entrepreneurs and is noteworthy as a system which creates sustainable

⁴¹ Prepared by the author based on 2014 "Global Sustainable Investment Review" (GSIA)

⁴² BlackRock Impact Fund website

social impact. 2020 Vision implements a program to support sporting events for persons with disabilities. The company’s initiative in regarding donations as an “ultra-long-term investment” is said to be a progressive approach which takes advantage of synergy with long-term investment.⁴³

Kamakura Investment Management Co., Ltd. is an investment trust company in Japan, and its method of operation consists of allocating 3.4% of its portfolio to social enterprises while making profit in investment trust. Their financial product called “Yui 2101” envisions the cooperative creation of an affluent society which connects people with people and one generation with another, with the next century “2101” as the target.⁴⁴ This interesting approach will be discussed in detail in Chapter II under market scale measurement.

Japan International Cooperation Agency (JICA) is an institution which primarily provides technical cooperation to developing countries and provides grant aid and loan cooperation. In September, 2016, JICA will issue 20 billion yen in social bonds.⁴⁵ This will be Japan’s first issuance of the above type of bonds in accordance with the definition set forth by international institutions. 10-year and 20-30-year yen-denominated bonds will be issued in lots of 10 billion yen, and the procured funds will be used for yen loans and investments in developing countries. Based on related events such as the GPIF signing the UNPRI and the spread of ESG investment, there is a potential for such “authorized” social bonds to be purchased on a priority basis.

In the future, social impact-oriented funds are predicted to gain strength in Japan stemming from progress in ESG investment.

Low-interest loans by financial institutions

A trend characteristic of Japan which can be seen in many financial institutions including regional banks is providing relatively low-interest loans to nonprofit organizations. In this report, due to NPOs being “social impact-oriented fund recipients,” loans directed at NPOs are included in the social impact investment market scale.

In addition, as previously mentioned with regard to the trends in fund recipients, due to the start of the NPO credit guarantee system in October, 2015, loans for NPOs by various financial institutions have been on the rise. According to an independent survey⁴⁶, financial institutions which have set up new loan products for NPOs include: 29 regional banks (45%), 77 shinkin banks (29%) and 50 credit unions (32%), manifesting how the launching of this system has greatly affected the expansion of loans for NPOs. Moreover, financial institutions which provide loans to NPOs include 100% of regional banks, 90% of shinkin banks and 63% of credit unions.

⁴³ Commons Asset Management website and interviews

⁴⁴ Kamakura Investment Management website

⁴⁵ August 23, 2016 “JICA to issue 20 billion yen social bonds as development fund in September” (Nikkei Shimbun), interview with JICA

⁴⁶ Independent survey on 65 regional banks, 265 shinkin banks and 154 credit unions in July, 2016

Japan Finance Corporation (JFC) was founded in October, 2008 as a policy-based financial institution wholly owned by the government, with National Life Finance Corporation, Agriculture, Forestry and Fisheries Finance Corporation and Japan Finance Corporation for Small and Medium Enterprises as its predecessors. Loan performance directed to the corporation's social business is as follows: 7,746 loans (128.1% of the previous year) of a total of 60.7 billion yen (117.2% of the previous year) in 2015, which is a record high in both the number of loans and the loan amount. Additionally, in February, 2015, a financing system dedicated to social businesses called the "social business support fund" was started. Low-interest loans of other financial institutions will be referred to in Chapter II under market scale measurement. Many financing systems have recently been established and will undoubtedly increase in the future.

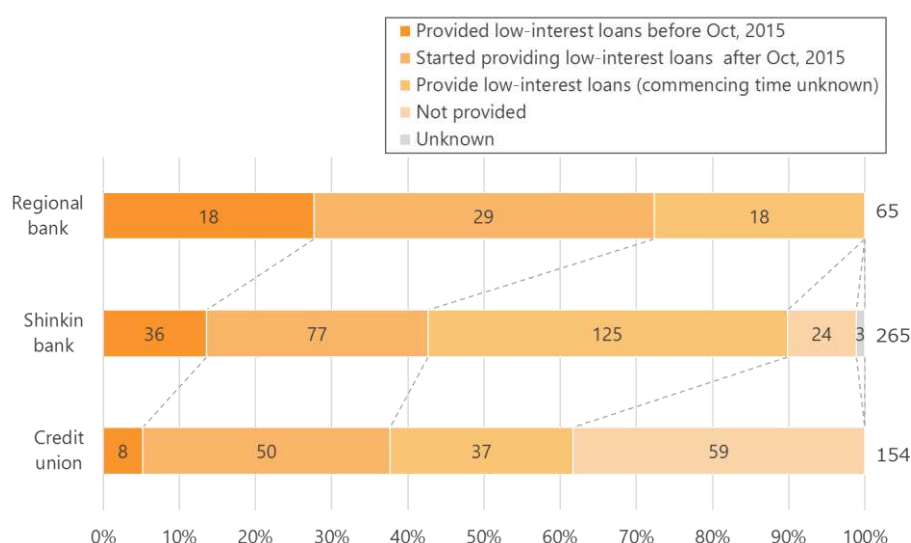


Figure I-14 Status of low-interest loans for NPOs provided by financial institutions

※Independent survey conducted in July, 2016

Heightening of social impact orientation in the support of venture businesses

In Japan, as in various Western countries, startups and growth of venture businesses⁴⁷ are essential for the growth and development of the economy. On the other hand, in comparison to Western countries, the standards for venture businesses, including financing and management support, is low. Thus, the promotion of financing venture businesses is a vital issue⁴⁸. Venture capital is an essential element in financing and providing management support for venture

⁴⁷ General term for enterprises which have recently been founded, aiming for rapid growth through the development of new business models, etc. from innovative technology and ideas, etc. Also called startups.

⁴⁸ 2014 "Final Report on Corporate and Venture Assistance: an Angel Investor-Centered Venture Ecosystem" (Nomura Research Institute)

businesses, and the amount invested in Japan for venture capital, etc. was 117.1 billion yen in 2014, of which 74 billion was directed at domestic businesses⁴⁹.

The primary objective of venture capital is the growth of businesses; however, social impact is increasingly being taken into consideration as well. Globis Capital Partners, a leading venture capital firm in Japan, has launched KIBOW, Japan’s first social impact investment fund, which implements social impact investment while utilizing the know-how of venture capital. Case studies related to KIBOW and its leading role in social impact investment will be referred to in II-3.

The mission of Mistletoe, a seed accelerator/incubator corporation operating at a full scale from 2016, is to promote startups which contribute to major global issues. In addition to financing and management support, providing a location for the investee and generally joint founder-like support, it develops businesses taking the growth of the ecosystem into consideration including event operation support and investment in independent-type venture capital. Projects handled by Mistletoe are issue-driven; namely, they are mid to long-term projects which contribute to the resolution of fundamental problems facing mankind such as global food shortages, declining birthrate and aging society, logistics, etc. Therefore, it can be said to be a social impact-oriented investment. We can anticipate this company’s future progress, which has plans to establish a venture business ecosystem in East Asia by 2030, aiming to surpass Silicon Valley⁵⁰.

d) Investment intermediaries/organizations trends

Expanding from venture philanthropy

In an effort to achieve venture philanthropy, some investment intermediaries in Japan have expanded their funding method from subsidy to investment. Venture philanthropy refers to the providing of medium to long-term funding and management support to non-profit organizations and social enterprises as a means to solve complex social issues, with the goal of promoting business growth. This concept goes back to 2003 when it was introduced to Japan by the Tokyo branch of Social Venture Partners (SVP Tokyo), a company founded in 1997 in Seattle.⁵¹ SVP Tokyo is an NPO which finances and provides management support to businesses endeavoring to find solutions to social issues, with each member paying 100,000 yen per year as a “partner.” It supports over 30 different organizations and there are over 100 partners. Conventionally, the funding method was primarily through subsidies; however, in 2012, a first attempt was made to invest 1 million yen in the form of third-party underwriting of share issuance to businesses conducting self-health checkups.⁵² Equity investment in the startup of social enterprises without an initial public offering (IPO) as the objective, as well as the idea of engendering potential future profit by circulating funds through reinvesting into new social enterprises instead of distributing to partners, can be classified as advanced initiatives. They plan to consider funding in the form of investments in the future.⁵³

In 2012, a philanthropic organization named Social Investment Partners (SIP) was founded by professionals in the fields of private equity and corporate finance. Its purpose is to provide medium to long-term financial and management support to organizations which are aimed at making social

⁴⁹ 2015 “Venture White Paper 2015” (Venture Enterprise Center)

⁵⁰ March 8, 2016 “Taizo Son ‘Out-of-the-park homer or strike-out investment’” (Toyo Keizai Online)

⁵¹ July, 2014 “Current state of Impact Investment in Japan” (Nippon Foundation)

⁵² January 10, 2012 press release (SVP Tokyo)

⁵³ Interview with SVP Tokyo

contributions. In 2013, Japan Venture Philanthropy Fund (JVPF) was established as a joint endeavor by The Nippon Foundation and SIP, becoming a pioneer of cooperation between private foundations and the business sector. JVPF has been supporting 4 organizations up to the present (2016), and one such organization it has been supporting since 2015 is AsMama, Inc. Details on this matter will be presented in II-3.

From the perspective of efforts toward venture philanthropy, the trend towards social impact investment with assumed financial return has the potential to continue gaining strength in the future.

Flow of funds from citizens

The institutions in Japan which correspond to the social banks and Community Development Financial Institutions (CDFI) in Western countries are called "NPO banks" and "community foundations." Another type of institution which specializes in the flow of funds in the energy sector is the citizens' energy fund. In a broad sense, it is a system in which the capital, consisting primarily of donations from citizens and local companies, is allocated to NPOs and regional social enterprises. The funding methods can be roughly divided into subsidies, investments and loans.

NPO banks refer to "non-profit banks for citizens," established with the objective of financing NPOs and individuals engaged in activities related to the local community, welfare or environmental conservation, through funds gathered through voluntary citizen donations. It is also called a "financial NPO" or "citizens' finance." The operational features of NPO banks are as follows: the citizens who agree with the purpose of the bank become NPO union members; they must make investments in several tens of thousands of yen a share, and with the aforementioned as capital, they must provide loans to NPOs and individuals at a low interest rate (about 1-5%). There are some disadvantages for the funder such as having no principal guarantee and not being able to withdraw funds freely. However, fund management being carried out in a visible form makes this an appealing investment.⁵⁴ The history of NPO banks in Japan goes back to the mid-1990s, when Mirai Bank Partnership was founded as the first endeavor. The number of NPO banks as of March, 2016 has increased to 14, with a cumulative loan total of 3.38 billion yen, and a loan balance of approximately 240 million yen.⁵⁵

A citizens' fund is a type of structure which collects funds from members of the public who support it and then circulates the funds as grants to NPOs and other organizations who are involved in activities which serve the public interest, creating a society in which citizens are supporting each other.⁵⁶ A promotion committee was founded in 2011, defined as "a civilian structure, independently established and operated by citizens, based primarily on donations from the public which are used to subsidize civic activity in order to solve social problems and create new value."

Community foundations are public philanthropic institutions operated by board members which consist of citizens selected from those who have knowledge of the local community and who represent the common public interest. The institution receives donations from individuals, companies and organizations, and manages numerous funds bequeathed by individuals.⁵⁷ The business target is the geographical "community" (region) with its various complex and stratified

⁵⁴ National NPO Bank Network website

⁵⁵ March, 2016 "Current state of Japan NPO banks" (Japan NPO Bank Network)

⁵⁶ July 6, 2011 "Establishment of Citizens' Fund Promotion Liaison Committee" (NPOWEB)

⁵⁷ 1996 "All about Community Foundations" (Osaka Community Foundation edition, Yoshihiro Mishima, Seibunsha)

regional issues. The business content consists of serving as a mediator for donations and the like, setting up and managing funds by collecting financial resources from multiple donors with a specific theme, and providing funding which reflects the intentions of the investors.⁵⁸ The concept of a community foundation goes back to the “Cleveland Foundation” founded in 1914 in Cleveland, Ohio in the United States. In Japan, the first such foundation is the Osaka Community Foundation, founded in 1991. After the reform of the public-interest corporation system in 2008, establishments of foundations in various localities ensued, such as the Kyoto Foundation for Positive Social Change in 2009.

A citizens’ energy fund is a fund initiated by the public with the intention of developing “renewable energy” through the strength of the local residents, after the nuclear power disaster following the Great East Japan Earthquake. It takes the form of a silent partnership fund and the funds are provided for the establishment and operation of clean energy power plants. The renewable energy Feed-in Tariff which started in July, 2012 is one reason for the spread of this fund. For example, in Fukushima Prefecture, there was a movement pursuing independence from nuclear power plants through natural energy, and in 2013, a fund was set up by Aizu Electric Power Company through the efforts of local managers⁵⁹.

The features of these organizations are as follows: the business and activities are society-oriented; there is willing participation on the part of the citizens; and social returns are expected. This type of structure, in which donations are solicited from local residents and enterprises for the purpose of regional revitalization and community development, and support is provided for the activities and businesses of NPOs and resident groups, will likely continue to prosper in the future. Each organization, respectively, has a nationwide network, such as Japan NPO Bank Network (activity started in 2005), Citizens Fund Promotion Liaison Committee (established in 2011) and Community Foundations Japan (established in 2014). It is thought that they will play a vital role in the spread of social impact investment in Japan in the future.

Table I-2 Summary of the structures for the flow of funds from citizens

Name	Definition/summary	Form of funding	Examples
NPO bank	“Citizens’ non-profit bank” founded for the purpose of financing NPOs and individuals engaged in activities related to the local community, welfare and environmental conservation, through funds voluntarily provided by citizens.	Loan	<ul style="list-style-type: none"> ● Mirai Bank ● Community Youth Bank momo, etc.
Citizens’ fund	A private structure established and operated by citizens to subsidize civic activities, based primarily on donations from citizens for new value creation and the resolution of social issues.	Subsidy	<ul style="list-style-type: none"> ● Civil Society Initiative Fund ● Kanagawa Children’s Future Fund
Community foundation	A public philanthropic institution operated by board members who have knowledge of the local	Subsidy	<ul style="list-style-type: none"> ● The Sanaburi Foundation

⁵⁸ Japan Community Foundation Association website

⁵⁹ July, 12, 2015 “The Future of the Natural Energy Fund Launched in Fukushima” (Harvard Business Online)

	community and share public interest, which manages various funds donated by individuals, enterprises and organizations, as well as bequeathed funds.		<ul style="list-style-type: none"> ● Aichi Community Foundation ● Kyoto Foundation for Positive Social Change
Citizens' energy fund	A form of silent partnership investment from citizens providing funding for the establishment and operation of clean energy power plants.	Silent partnership investment	<ul style="list-style-type: none"> ● Community Wind Power/ Hamatonbetsu No. 1 Generator Silent Partnership ● Aizu Solar Citizens Fund 2014, etc.

Spread of crowdfunding

As a means of procuring funds, crowdfunding continues to grow, with the Great East Japan Earthquake as a particular trigger for this growth.

Presently, the market scale of domestic crowdfunding (new project funding amount base) is 68.1% higher than the previous year at 36.3 billion yen⁶⁰. Crowdfunding is the method in which a project requiring funding procures relatively small amounts from an unspecified number of people through the Internet. There is the purchase type, donation type, investment type (funds), loan type (social lending) and equity type (investments). The reason for its large-scale expansion compared to the previous year is thought to be due to the many highly philanthropic and appealing projects which have been launched and the expansion of the high-yielding investment type, reflecting the establishment of major projects and the negative interest rate policy era. By analyzing the types, as shown in Figure 1-15, the loan type has yielded 32.3 billion yen (88.7% of the whole), followed by the purchase type which has yielded 3.2 billion yen, the investment type which has yielded 600 million yen, and the donation type which has yielded 100 million yen. With the investment type, a substantial increase is seen when a large project is achieved and although there are ups and downs throughout the year, it is growing steadily at roughly 600 million yen. There has been an increase in the purchase type due to the commission reduction and the increase in the awareness thereof, and with the increase in highly appealing project startups. With the loan type, we have come into a negative interest rate era from the low-interest era, and with the increase of supporters (investors) seeking a high-yielding return, continued growth is to be expected.

In addition, as of end of July, 2015, there were approximately 100 companies handling crowdfunding. However, as of the end of June, 2016, this number has increased to approximately 140.⁶¹

This type of fund procurement no longer remains a mere means of fundraising, but is evidently considered an effective means for test marketing and sales promotion, in addition to its continued

⁶⁰ August 19, 2016 "Domestic Crowdfunding Market Research" (Yano Research Institute, Ltd.)

⁶¹ Ibid.

use for business expansion activities. The crowdfunding market continues on an upward trend as it addresses various needs.

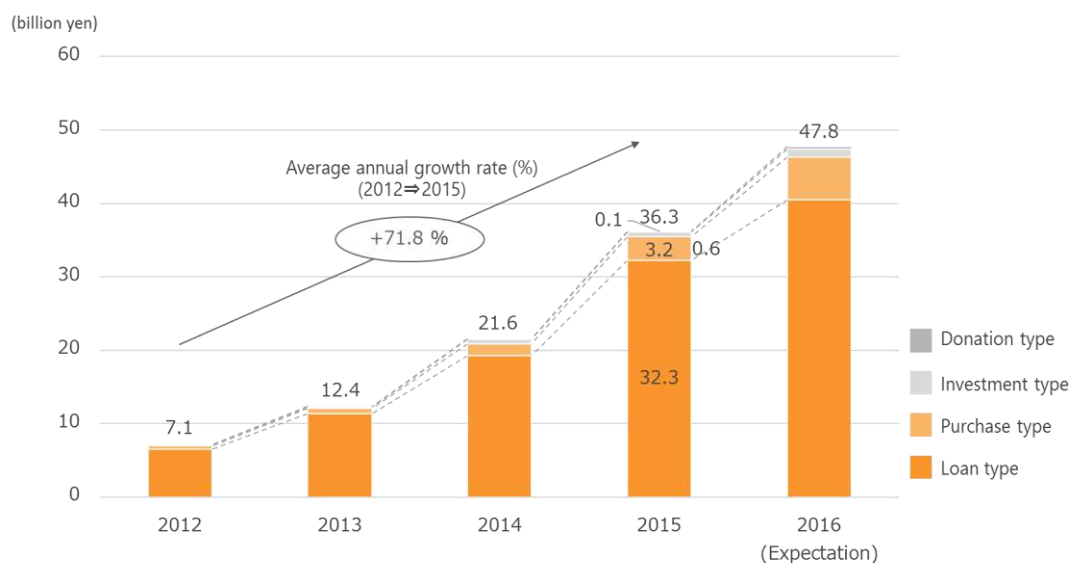


Figure I-15 Change in the amount of support funds for new domestic crowdfunding projects

e) Intermediaries trends

Intermediaries which aim to create and train social entrepreneurs have been increasing since the latter part of the 1990's. Organizations which give advice to newly sprung-up entrepreneurs as mentors and provide business model brush-up sessions and a venue for mutual exchange among entrepreneurs are called "incubators" or "accelerators" according to the venture capital terminology used in the West. NPO ETIC (hereafter, "ETIC") and NPO Edge, which operate primarily in the Osaka area, have spread the social entrepreneurial concept and mindset in tackling social issues with innovative methods and ideas. Examples of the two organizations follow.

ETIC is an NPO founded in 1993 which mainly provides social entrepreneurial support. Various programs are provided for social entrepreneurs and social entrepreneur candidates, through startup support and community development projects. From 2012, in collaboration with Seibu Shinkin Bank, ETIC launched "Change," a growth support loan which targets NPOs, social enterprises and medium to small-scale businesses.

RCF, a general incorporated association, was established after the Great East Japan Earthquake of 2011 with the vision of working towards reconstruction in Tohoku. Initially engaged in addressing issues in the Tohoku Region, this corporation is currently expanding their operations through their experience and connections to nationwide projects related to social issues, transcending the sectors of business, non-profit and government. They promote community support projects in various regions as a social enterprise coordinator.⁶²

⁶² RCF website

4. GLOBAL TRENDS AND MARKET SCALE OF SOCIAL IMPACT INVESTMENT

Social impact investment has developed in many countries, most notably in the U.S. and U.K. It is now developing in Germany, India, China, France, Belgium, Canada and other countries. The U.K., amid a pressured financial situation, is proactively promoting social impact investment as an answer to the question of how to efficiently and effectively implement social welfare projects, such as support for poverty.

At present, the concept of social impact investment itself is still new and the measurement of the market scale is difficult. However, the social impact market scale is said to be 60 billion dollars (approximately 6 trillion yen). The market for socially responsible investment, which places greater emphasis on financial return, is said to be 21.4 trillion dollars, and by comparison, the scale of social impact investment is less than 1% thereof. In addition, the scale of the social impact investment market makes up approximately 0.03% of the global financial market, which said is to be 210 trillion dollars.

The market is still nascent; however, according to various reports, it has shown expansion in its market scale in various countries, and can be said to be a highly promising potential market in the future.

Moreover, various countries have issued reports calculating its market scale. Table I-3 and Figure I-16 are compilations of a portion of such reports. In both cases, the social return and financial return from the funder perspective are based on assumption and differ in the accuracy of the calculation basis. The G8NAB⁶³ report from Germany most accurately calculates the market scale.

Table I-3 Social impact investment market scale in the respective countries and the calculation basis thereof ⁶⁴

Classification		Social impact investment market scale	Calculation basis
US (G8NAB 2014)		N/A	N/A
UK (G8NAB 2014)		200 million pounds	Limited to funds provided to charity organizations and social enterprises from social investment/social lending-specified intermediaries (funds provided through other financial institutions not included).
UK (BSC 2016)	Social investment (Segment A)	1.5 billion pounds	Where both investors and users of capital intend to make a positive social impact 1 Projects particularly in line with the BSC strategy theme • SME Charity Finance • Social Innovation • Mass participation

⁶³ National Advisory Board in various countries in the GSG

⁶⁴ Jun. 2014 "Private Capital, Public Good" (US National Advisory Board on Impact Investing), Sep. 2014 "The UK experience" (UK's Presidency of the G8), Mar.2016 "Social Investment Insights Series" (Big Society Capital), Mar.2016 "Social Impact Investment in Germany" (Bertelsmann Stiftung), Jan. 2015 "The Hows and Whys of Social Impact Investing" (the French National Advisory Board on Impact Investing)

			<ul style="list-style-type: none"> • Scale 2 Other social impact investments
	Wider impact investment (investor-led) ① (Segment B)	3.25 billion pounds or more	Where only the investor intends to make a positive social impact (A+ Project in which the investor has a social intent but the recipient does not)
	Wider impact investment (user-led) ② (Segment C)	68 billion pounds or more	Where only the user (investee) intends to make a positive social impact (B+ Project in which the investor does not have a social intent but the recipient does)
Germany (G8NAB 2016)		6.9 million Euros	1 Has a record of social impact measurement 2 Investee's social impact intention is clear 3 Investments in Germany using capital managed in Germany
France (G8NAB 2014)		1.8 billion Euros	1 Investee's social impact intention is clear 2 Social impact is clarified and both social and financial returns are expected. 3 The social mission is protected by governance, contract or through its legal form (Non-profit legal entities are always vehicles for locking in a social goal)

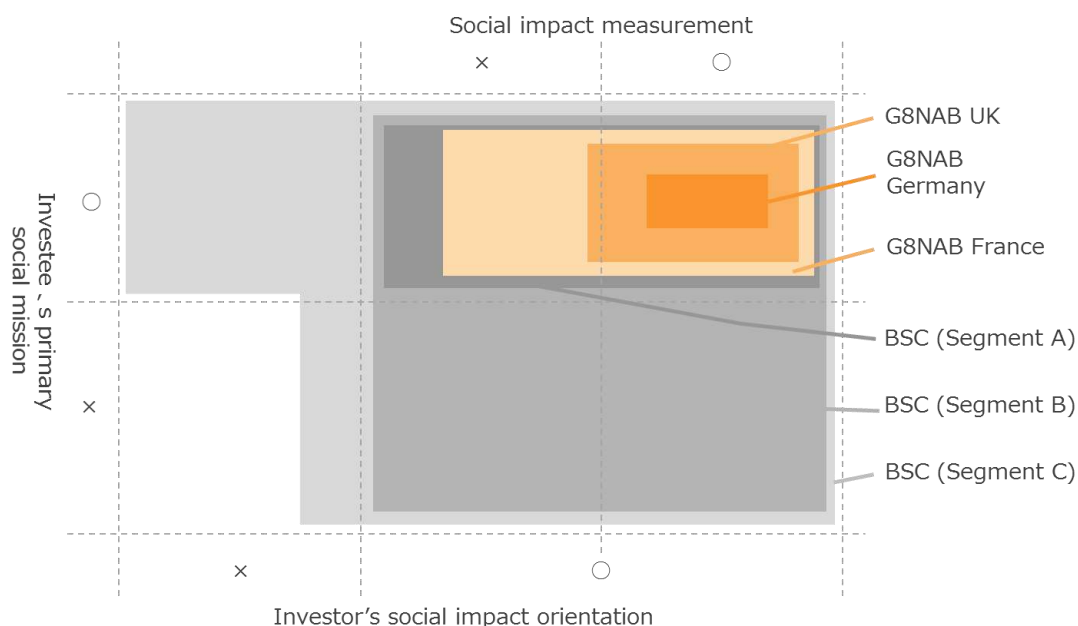


Figure I-16 Social impact investment market measurement method in reports of various countries

II THE SOCIAL IMPACT INVESTMENT MARKET IN JAPAN

1. SOCIAL IMPACT INVESTMENT MARKET SCALE MEASUREMENT

Projects meeting the conditions of the concept set forth in Chapter I as specified below were gathered and carefully examined, with reference to the various market scale measurement methods in different countries, in order to measure the social impact market scale in Japan.

1. The funder, through the investment, has the "intent" to pursue social and/or environmental impact
 - The primary mission of the funder organization is the creation of social value (specifically corresponding to one of the following):
 - The funding target is an NPO.
 - In determining whether to fund a microfinance organization, projects related to earthquake disaster reconstruction and other social enterprises, a standard should exist regarding social impact creation set forth by the funder.
 - Cases in which the government is the funding target are excluded.
 - General investments with the purpose of maximizing the profit margin and ESG investments, which take social and environmental factors into consideration in implementing the investment, are excluded.

2. The investment should be expected to yield profit on capital and financial return

- Donations and subsidies without the intent of a financial return, and venture philanthropy in which management support is provided through human resources along with monetary donations, are excluded.

The method of measuring the social impact investment market in this report is similar to that of the BSC in Figure I -16, in particular, Segment A.

In the "Current State of Social Impact Investment in Japan" issued by the National Advisory Board in 2014, funding by venture philanthropy as a means of managerial reinforcement was included in the market scale measurement. However, due to condition 2, "should be expected to yield financial return," this was excluded and a recalculation was made. In addition, an overall review was conducted with consideration to the above conditions and newly added conditions. As in the report compiled in 2014, the figure was calculated for each item, and by conducting surveys on the businesses concerned and holding interviews as needed, the total sum was calculated. The figures according to the 2014 report, the revised figures for the 2014 report and the newly calculated 2016 figures are shown in Figure II-1. The breakdown of the projects is as shown in Table II-1.

The resulting actual amount (or balance amount) of investments and loans in the social impact investment market for 2016 was 33.7 billion yen, a 41% annual average increase from 2014.

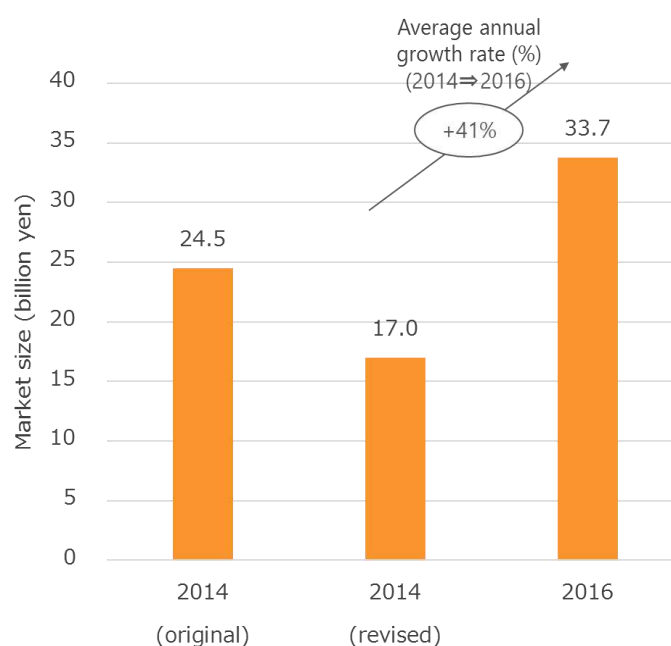


Figure II-1 Change of the social impact investment market in Japan

The difference between the revised and original market size for 2014 can be accounted for as follows:

- Entries that decreased from the 2014 report: -14.16 billion yen
 - 3 entries in which part of the item had not shown an annual sum but a cumulative sum: -7.35 billion yen
 - 3 entries in which not the actual amount but the total fund management value had been included: -3.35 billion yen
 - 2 entries in which all items within a broad definition, regardless of whether social impact was intended or not, had been included: -3.28 billion yen
 - 2 items which had been included as philanthropy: -180 million yen
- Entries that increased from the 2014 report: +6.67 billion yen
 - 5 entries which had not been included: +5.71 billion yen
 - 3 entries which showed a particular increase for some other reason: +960 million yen

The main reasons for the approximately twofold increase from 2014 to 2016 can be summarized as follows:

- There are 5 entries for which a growth of more than 500 million yen was seen.
- There are 4 entries for which new investments and loans were initiated.

On the other hand, only Daiwa Microfinance Fund saw a decrease with 900 million yen. The analysis thereof will be discussed in section II-2, and the item topics will be discussed in II-3.

Furthermore, detailed measurement methods or standards with regard to market scale measurements are summarized with explanatory notes in Table II-2. The calculated amounts were carefully examined based primarily on interviews, questionnaires, and so on. However, please note that these figures are not intended to be accurate.

Table II-1 Breakdown of the social impact market scale in Japan (unit: million yen)⁶⁵

No.	Name	2014 Original	2014 Revised	2016
1	Japan Finance Corporation (JFC) Social business support	5,000	5,867	17,114
2	Citizens Energy Fund	No entry	3,078	3,917
3	Music Securities, Inc.	4,400	1,963	3,789
4	Mitsubishi Corporation Disaster Relief Fund	1,500	1,532	2,050
5	Gojo & Company, Inc.	—	—	2,000

⁶⁵ Confirmation through each corporate website and interviews (Organizations which were interviewed are as follows by number: 1,3,4,5,6,8,11,13,14,15,20,21)

6	Daiwa Microfinance Fund	No entry	1,995	1,060
7	National Association of Labour Banks NPO loans	3,470	1,000	1,000
8	Kamakura Investment Management Co., Ltd. Investment trust "Yui 2101"	No entry	421	924
9	Toyota Tsusho CSV Africa Pte. Ltd.	1,500	0	396
10	NPO Bank	2,700	252	309
11	The Nippon Foundation "Wagamachi Fund"	3,120	120	262
12	Nationwide regional banks, shinkin banks, credit associations Low-interest loans for NPOs	Amount unknown	183	230
13	Japan International Cooperation Agency Overseas investment and loan projects	200	228	228
14	Relationship Capital of Japan	500	134	164
15	ARUN LLC	70	100	142
16	The Nippon Foundation Comprehensive finance support in Vietnam	50	50	50
17	Japan Venture Philanthropy Fund (JVPF)	120	0	45
18	Oikocredit Japan	No entry	33	35
19	Benesse Social Investment Facility	1,500	20	20
20	KIBOW Foundation	—	0	10
21	NPO SVP Tokyo	60	1	1
22	Other	280	—	—
Total		24,470	16,977	33,747

Table II-2 Details of the market scale measurement basis ※ Numbers correspond to Table II-1.

No	Name	Detailed standards
1	Japan Finance Corporation (JFC) Social business support	Of the businesses which deal with 3 fields of social business support, namely, (1) NPOs, (2) nursing care public welfare services and (3) solutions for social issues. The loan amounts for (1) and (3) are included.
2	Citizens Energy Fund	Projects with citizen funding are included.
3	Music Securities, Inc.	Investment balance of silent partnership funding is included.
5	Gojo & Company, Inc.	Subsidy acquisition of microfinance institutions in various regions is carried out by fund procurement, not through funds per se but through share issuance as capital, and the microfinance business is carried out as their own business. The financing amount to each microfinance institution (procurement through share issuance) is included.
6	Daiwa Microfinance Fund	Out of the total net asset value of 3.6 billion yen in 2016, the component of 29.1% for MFI-directed loans, as well as 32.4% of the 6.2 billion yen in 2014 are included.

7	National Association of Labour Banks NPO loans	Loan balance of 2009 is quoted (latest amount unknown).
8	Kamakura Investment Management Co., Ltd.	Of the net assets, the incorporated receivable ratio of social enterprises of 3.4% is included.
9	Toyota Tsusho CSV Africa Pte. Ltd.	Of the fund management scale of 1.5 billion yen, the amount invested for the Zambia agricultural business and Ethiopian leather industry is included.
10	NPO Bank	Based on the "Current State of National NPO Banks" issued by Japan NPO Bank Network, the loan balance total is included.
11	The Nippon Foundation "Wagamachi Fund"	Regardless of social orientation, the total amount of interest subsidy proposal made for loans provided to NPOs through regional financial institutions by The Nippon Foundation is included in the 2014 figure. However, in addition to determining the social nature, from 2016, only Seibu Shinkin Bank's social business growth support loan "Change" is included.
12	Nationwide regional banks, shinkin banks, credit associations Low-interest loans for NPOs	As a low-interest loan for non-profit organizations, only the projects of the five financial institutions with approved performance are included on a secondary survey basis.
13	Japan International Cooperation Agency Overseas investment and loan projects	Of the overseas investment and loan projects, only the investment in Pakistan's MFI is included (investment rate 8.9%).
17	Japan Venture Philanthropy Fund (JVPF)	Not only the 30 million yen JVPF investment, but also Nishikawa Associates' 15 million yen investment in the project as a joint investor is included.
19	Benesse Social Investment Facility	Of the 1.5 billion yen fund management scale total, investment for education venture which develops and provides contents for computer science education in India and was implemented in 2013 is included.
20	KIBOW Foundation	Of the 500 million yen fund management scale total, a 10 million yen investment for social enterprises is included.
21	NPO SVP Tokyo	1 million yen investment to social enterprises offering healthcare services is included.

2. ANALYSIS OF SOCIAL IMPACT MARKET SCALE

In this section, various types of analyses were conducted on the market scale measurements. Analysis and potential was looked at from four different perspectives: (1) the method of funding, (2) corporate structure of the funding destinations, (3) the target field of the funding destinations and (4) the region where they are located.

1 Funding method

From 2014 to 2016, equity investment increased most significantly, and investment in stock companies, which was 2 billion yen in 2014, expanded to 4.4 billion yen in 2016. Investment in microfinance institutions (MFI) has also expanded from 260 million yen to 2.26 billion yen. Due to the overall number of projects being few and consequently the impact of one project being great,

accurate analysis is difficult. However, because hands-on support can easily be provided, there are many investors seeking equity investment, contributing to the ongoing growth of this method.⁶⁶ Loans represent the next area of noteworthy growth, with an average annual growth rate of approximately 60%. This is attributed to the substantial growth in the funding of socially oriented enterprises within JFC's "social business support."

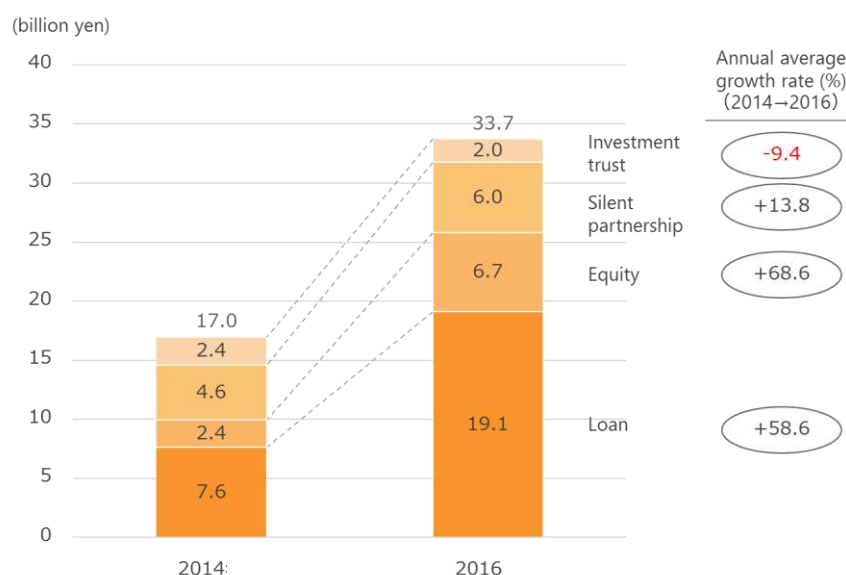


Figure II-2 Market scale according to funding method

2 Corporate structure of the funding destinations

Among the different corporate structures receiving funding, stock companies constituted the majority with 21.35 billion yen, with a growth rate of approximately 70%. This corresponds to the high growth rate of equity investment mentioned in the preceding paragraph. The next largest common funding destination was NPOs, with 8.8 billion yen, manifesting a slight increase. The growth rate of funding directed at MFIs is also steady at approximately 20%.

On the other hand, the scale of low-interest loans to NPOs by regional banks, shinkin banks and credit associations cannot be accurately calculated. This type of funding is not only estimated to exceed several billion yen, but due to the start of the NPO credit guarantee system in 2015, growth is expected to continue in the future.

⁶⁶ Interviews with various investors

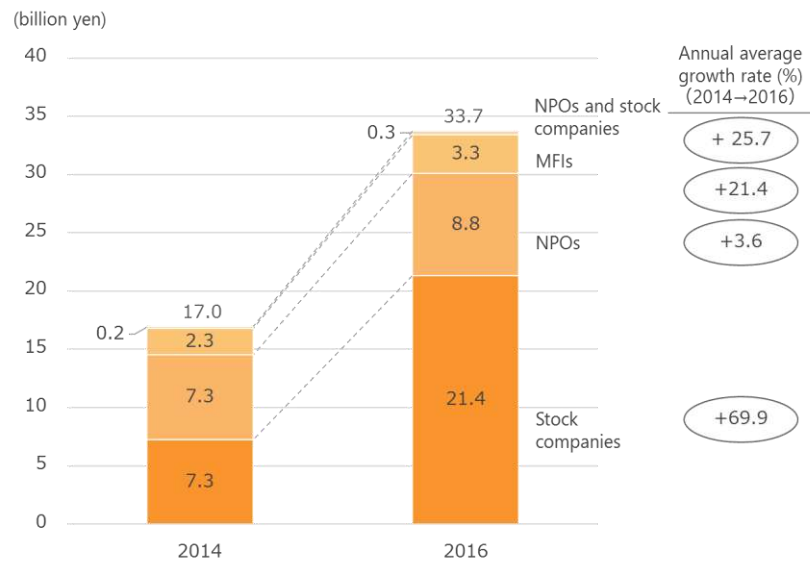


Figure II-3 Market scale according to the corporate structure of funding destinations

3 Target field of the funding destinations

The analysis based on the target fields of funding destinations revealed cases in which, due to the small number of projects, funding appears to be directed to specific fields. However, in general, most projects are without such limitation (80% of the whole when reconstruction projects are included). Specific fields in which the funding target is stipulated include microfinance and the environment, and other fields which are limited include education and disability-related. While the microfinance and environmental fields have a scale of approximately 3-4 billion yen, other projects with limited fields are still few and far between. All target fields show a trend of steady growth.

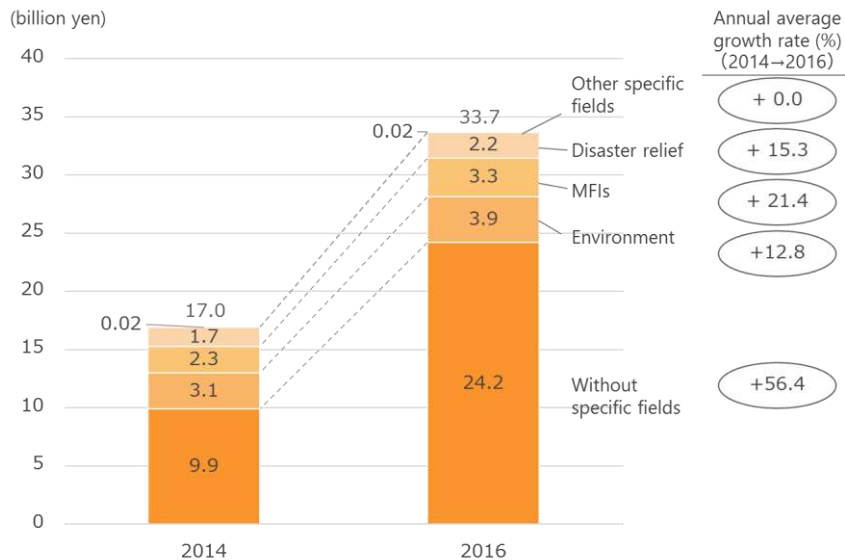


Figure II-4 Market scale according to the funding target field

4 Funding destination region

The background of social impact investment in Japan has been previously outlined; however, there are many projects which began to receive funding in the context of earthquake disaster reconstruction. Organizations which initially limited funding to the Tohoku Region have expanded their funding nationwide, regardless of the region. Relationship Capital of Japan, whose organizational name at the time of founding in 2011 was "Tohoku Relationship Capital," changed their name in April, 2016, with the intention of expanding their nationwide mission, utilizing the know-how acquired in the reconstruction work. The item in Figure II-5 labelled "Domestic (Tohoku)" refers to funding directed to the disaster-stricken areas of the Great East Japan Earthquake, for which funding continues to grow in 2016 even after the elapsing of 5 years. This can largely be attributed to the increased funding by the Mitsubishi Corporation Disaster Relief Fund. Steady growth can be seen in all regions; however, in comparison to the funding directed overseas (mainly to developing countries), domestic funding is seen to be growing at a faster pace.

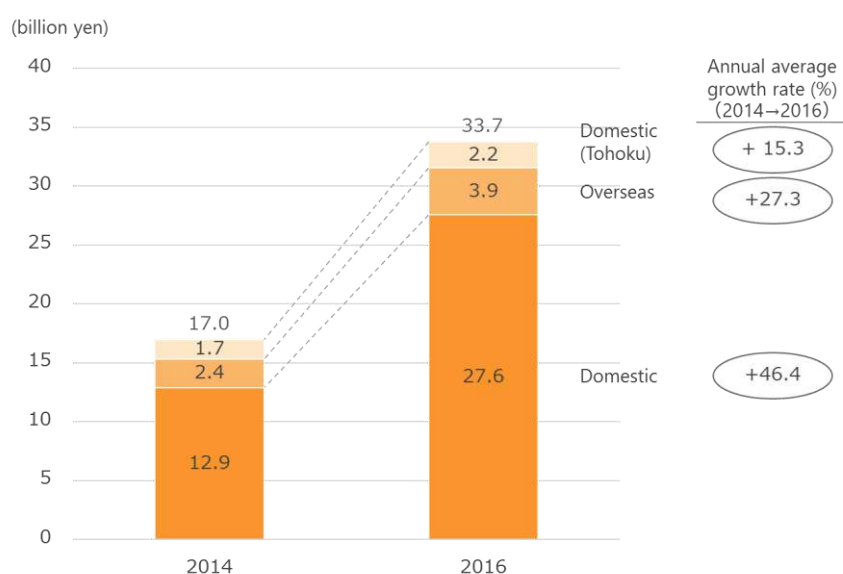


Figure II-5 Market scale according to the funding destination region

3. EXAMPLES OF SOCIAL IMPACT FUNDING IN JAPAN

The establishment of the social impact investment fund, KIBOW

The KIBOW fund can be considered a noteworthy topic for the 2016 report. The KIBOW fund, which was established in September 2015, is the first social impact investment fund in Japan. The purpose of this fund is described as follows:⁶⁷

- To invest in and support the growth of entrepreneurs contributing to solving social issues, in addition to accelerating societal reforms.

⁶⁷ General Incorporated Foundation KIBOW, Website

- To create a new structure for the returning flow of funds in which funds from the domestic private sector are used for the purposes stated above.

An interesting point regarding this fund is that it utilizes its know-how of venture capital investments in addition to the network used in the Great East Japan Earthquake support activities. The background of the establishment of this fund can be traced back to the Great East Japan Earthquake.⁶⁸ The earthquake relief and reconstruction project "Project KIBOW" was launched on March 14, 2011. After commencing activities as a general incorporated foundation from February 22, 2012, the foundation expanded its reconstruction activities by providing multiple support groups in the affected areas, holding events, and donating approximately 100 million yen to the parent body of support activities in each affected area. In 2015 Yoshito Hori, the Representative Director of KIBOW, and Sir Ronald Cohen, the Chairman of the Social Impact Investment Taskforce established by the G8, had a meeting, in which Sir Cohen asked Mr. Hori to jump-start social impact investment in Japan, which led to KIBOW considering its business commencement. Yoshito Hori is also the fund representative for incubation funds as well as venture capital funds, and it is interesting to note that he is utilizing his experience with venture capital in the operation of social impact investment funds.

The commitment total, investment target, and duration of funds are as shown below.

Table II-3 Total amount and duration of the KIBOW fund

Commitment Total	500 million yen
Commitment Duration	September 2015-August 2035 (20 years)

At present, as a result of focusing on providing funding through equity investments, the corporate structure is limited to stock companies and associations. The investment targets must clearly refer to "working toward finding solutions for social issues" or their "scalability," a "management team" or being "a corporation with a background or story." After carrying out due diligence, the last step is specifying the organization's mission and then the investment contract, which is geared toward achieving that mission, is finalized. If it is a project which will contribute to resolving social issues, there is no particular restriction on the business field, but businesses receiving funding are mainly early-stage operations with a business scale of under 100 million yen.

For the first project, by means of preferred stock investment, 10 million yen was invested in a delivery business called Ai Sansan Meal Delivery, which has been providing packed lunches and/or prepared food for the elderly since 2013, in addition to promoting employment for persons with disabilities. The exit goal is under 10 years, and fund members have assumed the position of directors in order to support management.

As KIBOW intends to continue expanding its investment scale, for the second project, a 10-million-yen investment was made in August, 2016 in Seeds of Wish Co., Ltd, a corporation which operates movie theaters that are closely connected to the local community.⁶⁹ KIBOW aims to find 3-5 projects within a year and invest 500 million yen over the course of five years. In addition, the establishment of a second fund is also being considered, and with the anticipation of a scale of 2

⁶⁸ September 28th, 2015 News Release (General Incorporated Foundation KIBOW)

⁶⁹ August 31st, 2016 Press Release (General Incorporated Foundation KIBOW)

billion yen including private investors, there is also a possibility that they will be considering both their investment methods and the corporate structures to invest in with a wider perspective.

Investments made towards joint-stock corporations by means of the Japan Venture Philanthropy Fund (JVPF)

JVPF was introduced as a venture philanthropy fund in the 2014 report. They can be considered an advanced case, as the organization went from the form of "Grant + Management Support" that did not seek financial return to a new form of "Investments in Stock Companies + Management Support," which seeks financial return, in 2015.

The Japan Venture Philanthropy Fund, which supports organizations that work towards solving social issues with the objective of developing sustainable activities, was established in April 2013 based on the funding of the Nippon Foundation in addition to corporations, corporate managers, and those formerly in the investment business⁷⁰. The support target areas are (1) education and employment support for youths, (2) child-care and success for women, and (3) local communities. Funding and management support were provided for the three non-profit organizations, and in the other case, investments were made by means of convertible bonds (Refer to Table II-4).

Table II-4 Destination of funds provided by JVPF

No.	Name of organization receiving support	Business Field	Support Total (million ¥)	Support Duration (years)
1	Non-Profit Organization Hokago NPO After-school	Education Support (After-school support)	20	3
2	Certified Non-Profit Organization Teach For Japan	Education Support	30	3
3	AsMama, Inc.	Support for working mothers	30	3
4	Non-Profit Organization Hattatsu Wanpaku Kai	Support for children with developmental disorders	30	3

The investment in AsMama is the first equity investment for JVPF, and its business growth is bolstered by assigning the director positions to fund members as management support as well as providing hands-on support for a minimum of three years. Management support including impact measurement as well as legal affairs, strategy consulting, and pro bono support for accounting. In addition, Nishikawa Associates, which is an Angel Investor, has made an investment of 15 million yen as a partner.

Using the philosophy of AsMama, Inc., "to create a structure for and strive to create a society where anyone can raise their children, work, and do what they want exactly how they want to," the business has expanded towards creating a space where parents who need support in raising their children and those wanting to support them, as well as corporations can enjoy meeting in a safe and

⁷⁰ August 12th, 2015 News Release (Nippon Foundation)

secure environment, in addition to expanding the support structure of child care using the internet. Because of the societal context, such as the decrease in labor force population due to the decreasing birthrate and aging population in addition to the cultural background, women in Japan still face many challenges when returning to their careers after childbirth.

Kamakura Investment Management -Yui 2101

Although it was not included in the social impact investment market mentioned in the 2014 report, the investment trust structure, operated by Kamakura Investment Management, which incorporated approximately 3.4% of corporate bond into social enterprises (unlisted) in the portfolio, is also a case of great interest.

Kamakura Investment Management Co., Ltd. is an investment trust management company (asset management company) founded in 2008. The operation policy for the investment trust called Yui 2101 which is operated and marketed by the company is, "a company that will be needed by society in the future and an investment trust that invests in good companies, which will turn customers into fans making them want to provide support."⁷¹ The investment targets, or "good companies" as mentioned above, are companies that will take their time to grow while building harmony with society instead of having short-term profit or stock prices as their main focus. As a result, out of the whole portfolio, 3.4% is allocated to social enterprises, and approximately 800 million yen is currently invested.

Concerning the brand selection process, "talent, harmony, and skill" are set as the three evaluation criteria. Respectively, they refer to "an enterprise that makes the most of talent", "an enterprise that creates a recycling-oriented society" and "an enterprise with excellent Japanese technology and corporate culture, as well as impressive service". In addition, each criterion has evaluation points, and after confirming a total of 40 points, an investment decision is made.⁷²

By investing in a number of listed stock, while gathering a sizable fund (the fund net asset is currently approximately 23 billion yen), as well as investing in corporate bonds for high-risk social ventures, the publicly offered investment trust is made in order to function as investment products. The ideal stable return is 4-5%, and the percentage change during the 5 years from March 2011 to February 2016 was 11.4%. In addition, regarding the stock investment in listed enterprises, enterprises with relatively high sociability, including the enterprise that was ranked 1st among the listed enterprises for employment of persons with disabilities with a rate of 16%, are also included. Regarding social enterprises which were invested in, sample organizations are shown in Table II-5.

In Japan, where there has been a gradual change from general investments with maximized financial return to ESG investments, incorporating social enterprises in investment trust while mitigating the price change risk of the whole portfolio as well as the credit risk is an advanced initiative. As it has made a strong showing compared to 2014, future growth can be anticipated.

⁷¹ Kamakura Investment Management Co., Ltd. Website

⁷² Kamakura Investment Management Co., Ltd. Interview

Table II-5 Social enterprises involved in Yui 2101

Corporation Name	Social Orientation	Business Description	Capital Fund (million)
Tobimushi Inc	Regional revitalization through reforestation	Forest management, producing/processing/marketing forest resources (material), and regional branding	77.7
MOTHERHOUSE Co., Ltd	Creation of worldwide brands from developing countries	Planning, producing, and providing quality guidance for apparel products/general merchandise concerning developing countries, in addition to the selling the above products in developed countries.	27.95
HASUNA Co., Ltd	Aiming to bring happiness to everyone involved, from the mining site to the distribution, through processing of the jewelry.	Production/sales of jewelry (Fair Trade)	39.2

The Mitsubishi Corporation Disaster Relief Foundation's Fukushima Winery Project

Mitsubishi Corporation (Japan's largest trading company) established a support fund for reconstruction work after the Great East Japan Earthquake in 2011. The scale of this fund amounted to a total of 10 billion yen in 4 years up to 2014.

Based on the same fund, the non-profit incorporated foundation Mitsubishi Corporation Disaster Relief Foundation was established in 2012. This foundation provides a wide variety of support including grants, investments and loans, in addition to scholarship programs for the affected areas, and in 2015, contributed an additional 3.5 billion yen for five years' worth of activity funding. 50 businesses have been supported in three disaster-stricken Tohoku prefectures, and as the name "Industry reconstruction and employment creation support" implies, focusing on businesses that utilize food processing, agriculture, fishery, and other local industries, the Foundation provides broad support for starting up businesses including the production and sales of musical instruments and sewn products.

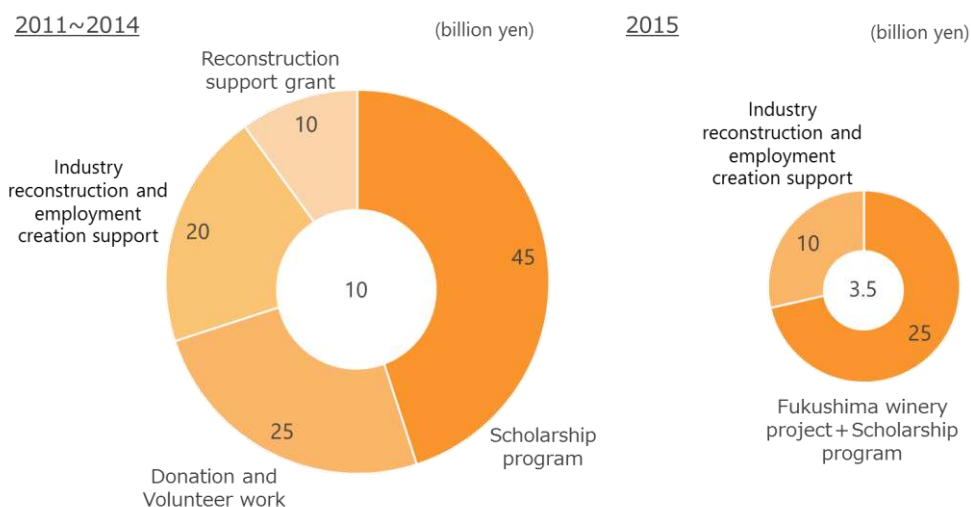


Figure II-6 Breakdown of Support provided by the Mitsubishi Corporation Disaster Relief Foundation⁷³

The following are the main items they consider when screening companies to invest in.⁷⁴

- Information from local financial institutions is the starting point.
- Having a ripple effect on the development of the local economy, including creating jobs.
- The managers' consciousness and judgment of character.
- Priority is placed on locality (greatly affected areas such as Iwate, the coast of Miyagi, and the entire Fukushima prefecture, which suffered from reputational damage due to the nuclear power plant disaster).

The Fukushima Winery Project, established by this foundation in 2015, has an interesting structure where the corporation provides social enterprise support which transcends the business and public sectors.

In February 2015, a partnership agreement was concluded between Koriyama City in Fukushima Prefecture and the Mitsubishi Corporation Disaster Relief Foundation. The Winery Project was started as a "sixth industry"⁷⁵ fruit farming project, which involves the developing and marketing of wine and liqueur using fruit grown in Fukushima. The corporation, the government and local farmers have collaborated to create new business schemes in order to offset issues such as sluggish demand and lack of successors due to reputational damage. The Fukushima Winery was founded for the operation of this project, and a staff member from the Mitsubishi Corporation Disaster Relief

⁷³ 2015-2016 Mitsubishi Corporation Disaster Relief Foundation Report (Mitsubishi Corporation Disaster Relief Foundation)

⁷⁴ Mitsubishi Corporation Disaster Relief Foundation Interview

⁷⁵ Sixth industrialization of agriculture is a growth strategy of the Japanese government in which farmers not only produce agricultural commodities but also process and market them (thus raising their added value) as well as engaging in agri-tourism; it also involves establishing new public bodies at the prefectural level.

Foundation has assumed the position of representative director. Mitsubishi Corporation Group will make use of their network and know-how for branding and marketing.

In March 2016, the first shipment of the produced wine and liqueur started, and by cooperating with local fruit farmers, the foundation will move forward with this project towards its goal of 100 million yen in sales within the next 5-7 years as well as having local people take over the business 10 years from now.⁷⁶

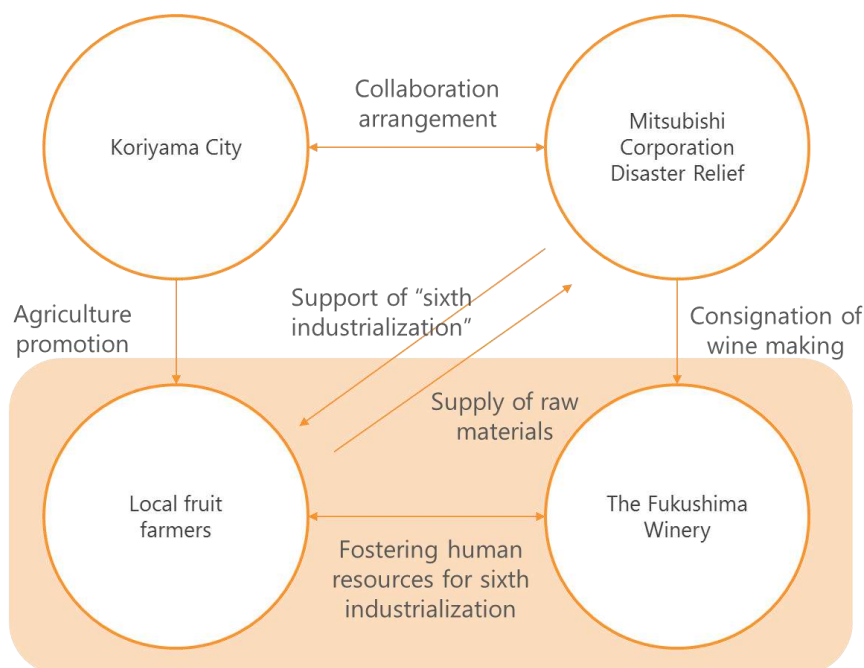


Figure -II-7 General representation of the Fukushima Winery Project

As for its future direction, the Mitsubishi Corporation Disaster Relief Foundation intends to reinvest in public enterprises with the acquired dividend and continue providing industry support in areas affected by the Great East Japan Earthquake. In addition, based on its experience in providing aid as well as investments and loans for five years, the foundation plans on focusing more on investments and loans instead of aid for the method of funding.⁷⁷

Toyota Tsusho Corporation's Africa Fund and Benesse Corporation's Social Investment Facility can also be listed as enterprises which provide investments and loans for social enterprises. Both of the projects above have synergy with their main business and have provided funds.

In 2013, Benesse started investing in an education venture which involves the development and provision of contents related to computer science education in India.

In 2014, Toyota Tsusho founded a social venture development fund called Toyota Tsusho CSV Africa Pte. Ltd. in Mauritius, Africa. Instead of focusing on the investment efficiency and return of

⁷⁶ February 27th, 2015 "Koriyama City × Mitsubishi Corporation Revitalization of Fruit Farms, 1 billion investment for the building of a brewery" (Tohoku Fukkou Shimbun)

⁷⁷ Mitsubishi Corporation Disaster Relief Foundation Interview

this Africa support project, this fund provides employment creation and income improvement in countries where there are social issues including a high unemployment rate in addition to a low income level, and aims to improve the living and welfare environment as well as to find and develop projects that are directly connected to solving issues such as foreign currency acquisition. It has made investments in the agricultural business of Zambia and the leather industry of Ethiopia, which make use of the strengths of Africa. The hands-on approach for management support involves regular monitoring and sending personnel from Toyota Tsusho to be officials. Asia Africa Investment and Consulting Pte. Ltd.'s Susumu Tsubaki, who has had much success in venture investments, and founder of the Kenya Nuts Company Yoshiyuki Sato, who is an expert on entrepreneurial ventures in Africa, have been invited as partners by Toyota Tsusho in order to formulate projects and provide support by means of funds and the Toyota Tsusho global distribution and sales network⁷⁸.

Corporate donations which are also related to CSR have been making steady progress, and although the numbers are low, investments and loans, which make use of the synergy between corporations' main businesses and other social enterprises, can be expected to continue growing in the future.

Table II-6 Corporate-operated fund operation scale and duration

Name of Fund	Fund operation scale	Fund operation duration
Mitsubishi Corporation Disaster Relief Foundation (Included investment and loan projects only)	2 billion yen	N/A
Benesse Social Investment Facility	approximately 1.5 billion yen (15 million US dollars)	5 years or longer
Toyota Tsusho CSV Africa Pte. Ltd.	1.5 billion yen	8 years

Seibu Shinkin Bank's Social Business Growth Support Loan, "Change"

An interesting precedent in Japan is Seibu Shinkin Bank, a local financial institution which offers low-interest loans to non-profit organizations and provides financial and operational support with the cooperation of foundations and intermediary support organizations.

Seibu Shinkin Bank, which operates in Tokyo, Saitama, and a part of Kanagawa, is a cooperative financial institution that aims to contribute to the development of local communities. As of the end of March 2016, this bank is a top-class shinkin bank in Japan with 1.6 trillion yen in balance, in addition to 1.25 trillion of lent money. Compared to the previous year, there has been a growth of approximately 100 billion yen, and when also considering the capital-to-asset ratio and non-

⁷⁸ January 7th, 2014 Press Release (Toyota Tsusho Corporation)

performing loan ratio, the growth of the soundness of management has become noteworthy in recent years.⁷⁹

From 2013, Seibu Shinkin Bank has partnered with The Nippon Foundation and ETIC to start a program called "Change," a loan which supports the growth of social businesses (the loan product of The Nippon Foundation's "Wagamachi Fund" project). The duration of this project was from June 1st, 2013 to August 31st, 2016 (to be extended after this date) during which time The Nippon Foundation and Seibu Shinkin Bank both contributed 250 million yen and low interest/unsecured loans were provided with the establishment of a credit line of 500 million yen.⁸⁰

For the implementation of loans, after the social factor is judged by the project evaluation committee which consists of experts including members employed by The Nippon Foundation, the financial audit is ultimately conducted by the bank. The loan conditions include a maximum of 5 million yen, a 0.1% fixed interest rate, in addition to a 12-month deferment period. Before and after the loan, ETIC, which has achieved many results related to support for social entrepreneurs, supports the party receiving loans as an intermediary support organization by providing programs that help with the furtherance of businesses, including support for project planning and management. Although social businesses have great potential, there are many issues concerning financing as well as sustainability, and because this scheme involves support before and after the loan, it is no doubt a win-win program in which there is a complementary relationship of the three parties providing funds and expertise as well as the party with a demand for funds.

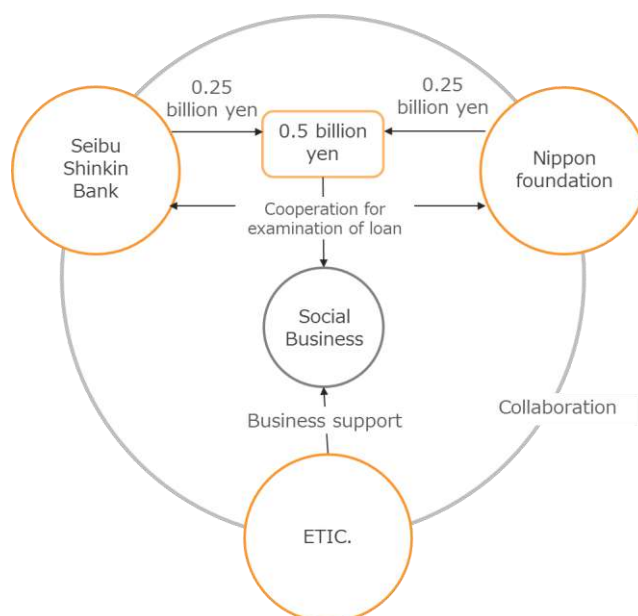


Figure II-8 Structure of Change, a social business growth support loan system

⁷⁹ Fiscal 2015 Achievement Highlights (Seibu Shinkin Bank)

⁸⁰ December 2nd, 2013 Press Release "The "Wagamachi Fund" collaboration project with local financial institutions starting with 5 credit associations of Tohoku/3 affected prefectures! 2.5 billion yen for subsidized interest" (Nippon Foundation)

For a one-year period before the project began, ETIC built up the foundation by having a staff member from the same bank come and work with them temporarily, getting advice from a social entrepreneur and assigning them to coordinating duties and on implementing and managing ETIC's government-subsidized business. Because of doing this, Seibu Shinkin Bank was able to gain an understanding of social business and a sense of speed, while ETIC gained the ability to make someone unrelated to their business understand what ETIC was all about, as well as learning about financial institutions' viewpoint on assessment. The direct catalyst of the project launch was the Nippon Foundation staff in charge sounding out the concept of the "Wagamachi Fund" project, but it was because of this kind of foundation that Change came into being.

Change had been advertising for the 12th term as of August 2016. The principal loan targets must be businesses in a field that greatly contributes to society such as welfare, education, the environment, or community development. Total results as of May 2016 were 241 million yen in a total of 42 cases including 7 cases in the welfare/medical field, 5 cases in the culture and traditions field, 10 cases in the education field, 9 cases in the child-care field, and 11 cases in other fields. In addition, the "Social Change Support Course" was newly launched, and the maximum of 5 million became 50 million yen (with a 0.1% fixed interest rate and 12-month deferment period) as of April 2015.⁸¹

As an innovative example of a regional financial institution financing system, its great potential in the future is anticipated.

III Efforts to Expand Impact Investment in Japan

In May, 2015, the formation of a social impact ecosystem in Japan was discussed and seven particularly important topics were brought up at the National Advisory Board in May, 2015. After analyzing the issues at hand as well as looking at the present situation, proposals were formulated for how to tackle each of the topics.⁸²

The contents of this chapter are an organized compilation on these proposals, and by presenting new developments from the time of the proposal to the present, the current progress of each proposal and the issues which it faces in order to encourage the parties concerned to take solid steps, it is hoped that the aims of the proposals will be immediately attained.

⁸¹ April 20th, 2015 Press Release "A maximum of 50 million yen to the social business support loan "CHANGE" for NPO and social entrepreneurs" (Nippon Foundation)

⁸² May 19th, 2015 "Proposals for the expansion of social impact investments" (G8 Social Impact Investment Taskforce National Advisory Board)

Table III-1 Content of the proposals for the expansion of impact investments
 ※ Taken from the proposal documents⁸³

Theme	Overview	Points regarding realization	Items which should be prioritized
Utilization of dormant bank accounts	Enactment of the Dormant bank accounts Utilization Promotion Bill and support for the promotion of speedy project realization after the enactment of the bill.	In order to promote investments and donations with the support of dormant bank accounts, environmental improvements must be made for results-based investments.	The institutional design and staffing of the designated organizations, tool development and personnel training for universal implementation of the social impact measurement, as well as the ability development of financial intermediary organizations should be progressing simultaneously.
Introduction of Social Impact Bonds and the Development Impact Bonds	Develop a suitable Japanese version of the SIB scheme in order to carry out projects introducing Social Impact Bonds (SIB)	Introducing systems which reduce risks for investors as well as special measures that do not lessen the introduction merits of projects subsidized by the national government or prefectures should be considered.	Establishing a place where stakeholders can gather to hold discussions, and the trial/verification of the Japanese SIB scheme with intermediary support organizations taking the lead.
State of corporate systems and certification which facilitate social projects	Creating corporate systems and certification systems in order to facilitate the project implementation and financing of social corporations.	It is necessary to promote the establishment of new corporate systems suitable for social projects as well as considering certification systems for social projects.	Keeping the realization of social investment tax reduction in view, discussions between the government and private sectors on new corporate systems and the establishment of certification systems for social projects should be immediately arranged.
Establishment of the social investment tax reduction system	A tax reduction system will be established as a financial incentive from the standpoint of increasing the motivation of private investors as well as institutional investors to invest in social projects.	In order to make the system work in Japan, the definition, user, and expected effect must be made clear.	In order to get a snapshot of the system design, the social investment tax reduction system can be installed on a trial basis by utilizing a special zone system. Additionally, in order to make sure the system will not be limited, continuous effort towards tax reformation and establishment will be made.
Permeation of social impact measurement	Establishing a measurable goal concerning the social impact brought about by social corporations and improving the environment for monitoring.	A place where social corporations can logically analyze and organize their own business results according to aspects such as input, output and outcome, as well as present it to the investors, must be installed.	Create an environment where social corporations can easily evaluate their impact themselves by devising a format for grants and applications and introducing subsidized projects within which evaluation processes are integrated.
Clarification of fiduciary liability	Confirming that social impact investments do not violate fiduciary liabilities, institutional investors should also improve the environment which makes integration of investment portfolios easier.	By cultivating public understanding and enhancing the dissemination of information, institutional investors improve the environment in order to facilitate the introduction of social impact investments.	Japan's first institutional investor social impact investment project should be produced through private foundations, and after creating a precedent for operation guidelines, the information should be shared with other funds including the Pension Fund.
Increasing private investors	Creating opportunities for society as a whole by heightening national investment literacy and actualizing potential investors.	Understanding of potential private investors must be promoted by communicating information that shows how social impact investments are useful in solving social issues regarding wider generations.	Building an information platform for social impact investments which supports the decision-making regarding investments by private investors.

⁸³ May 19th, 2015 “Proposals towards the expansion of social impact investments” (G8 Social Impact Investments Taskforce National Advisory Board)

Each of the 7 proposals have a complementary relationship and are important for the enhancement of the impact investment ecosystem. Although the individual realization of each proposal is important, effecting all 7 proposals will result in the expansion of impact investment and will ultimately contribute to maximizing the total social benefits in Japan.

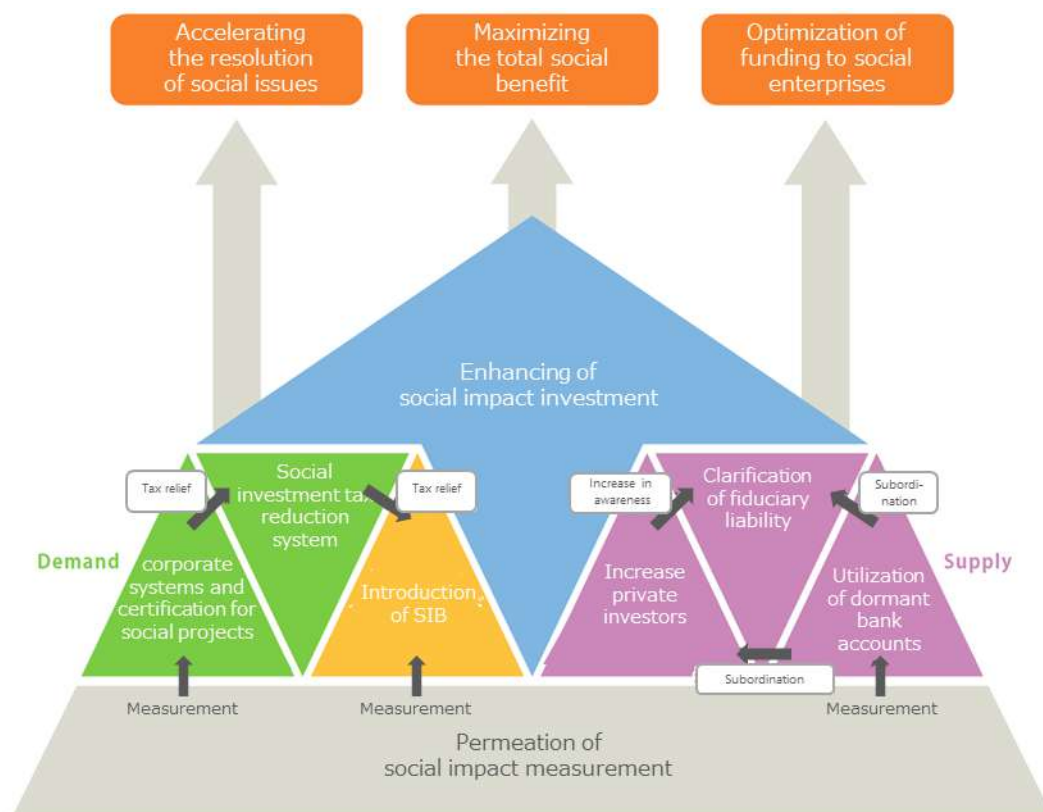


Figure III-1 Placement of the seven proposals

1. UTILIZATION OF DORMANT BANK ACCOUNTS

1 Proposal Background

Dormant bank accounts are bank accounts which have had no activity for a long period of time. Banks generally manage accounts with no activity in over 10 years as well as accounts for which the depositors cannot be reached as dormant accounts, and according to the bylaw of the Japanese Bankers Association, such dormant bank accounts are included in the profit of financial institutions. However, even if accounts are managed as dormant bank accounts, withdrawals are re-enabled if the established procedures are followed.

According to the estimate provided by Mitsubishi UFJ Research & Consulting,⁸⁴ dormant bank accounts in financial institutions including banks amount to approximately 85 billion yen annually,

⁸⁴ October 9th, 2014 "How to make the most of dormant bank accounts? Creating a system that supports the 'solving of social issues by means of the people'" (Mitsubishi UFJ Research and Consulting)

and although 35 billion yen are paid back to the depositors, the remaining 50 billion yen is included in the profit of financial institutions. In addition, there is an annual amount of 2.4 billion yen in the financial institutions for agriculture and fishery associations, and of this amount, it is estimated that 600 million yen is paid back to the depositors.

Such dormant bank accounts exist universally in any financial institution with depositary functions, and there have been cases where dormant bank accounts are collected and used to promote the solving of social issues, including countries such as England and Korea. In Japan, measures for the utilization of dormant bank accounts to support public welfare activities, while maintaining a system that can respond to refund requests from depositors, are being considered.

2 Proposal Content (as of May 2015)

At the time of the proposal presentation, bills related to dormant bank accounts⁸⁵ were being considered by the Parliamentary Association of Dormant Bank Account Utilization Promotion, and assuming the points to be considered included in the institutional design of the designated organizations (the organizations to which the dormant bank accounts will be transferred to) after the bills were enacted, the following proposals were made.

Table III-2 Overview of the proposals related to the utilization of dormant bank accounts

Proposal Theme	Utilization of dormant bank accounts
Overview	Enactment of the Dormant Bank Accounts Utilization Promotion Bill and support for the promotion of speedy project implementation after the enactment of the bill.
Main point with regard to implementation	In order to promote investments and donations with the impetus of dormant bank accounts, the environment for results-based investments must be improved.
Items which should be prioritized	Expansion of social impact investments with dormant bank accounts as a trigger. The institutional design and staffing of the designated organizations, tool development and personnel training for the universal implementation of social impact measurement, as well as the capacity building of financial intermediary organizations should be progressing simultaneously.
Specific actions and current progress ○ : In Progress △ : Under consideration × : Not yet started	<ul style="list-style-type: none"> × The designated organizations will carry out the selection and institutional design with a good balance of defense (implementing transparent governance) and offense (prioritizing social impact), as well as secure board members and internal secretariat personnel who are appropriate for the implementation. ○ Active tool development and personnel training towards creating an environment where social impact measurement is common. × The government will create opportunities for capacity building in order for citizen community foundations' intermediary financial organizations to be able to uncover issues and financial demands.

⁸⁵ Bills related to the utilization of funds pertaining to dormant bank accounts to promote activities in the public interest

	<p>× The intermediary financial organizations will perform capacity building to find investment projects and cases that will attract investors.</p> <p>△ In order for social impact investments using dormant bank accounts to show results in both social welfare and business, the government as well as intermediary support organizations will actively work towards capacity building of support organizations to secure investment projects as well as the fulfillment of the players on the supporting side.</p>
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3 Major new developments and future outlook related to the proposal

Public comments regarding dormant bank accounts-related bills were collected by the non-partisan Parliamentary Association of Dormant Bank Account Utilization Promotion from May 22nd to June 20th of 2015, and the bill overview and main points of the collected comments were made public on September 2nd of the same year. Afterwards, from October to December of the same year, the Dormant Bank Account National Conference and the Parliamentary Association of Dormant Bank Account Utilization Promotion ran a combined national caravan which was held in a total of five different locations (Okayama, Osaka, Ehime, Miyagi, Tokyo), providing explanations of an overview of the bills as well as the opportunity to exchange opinions.

In May 2016, although the deliberation of bills related to dormant bank accounts was initiated at the Financial Affairs Committee of the House of Representatives of the ordinary Diet, it resulted in continuous deliberation.

Table III-3 Major developments related to the utilization of dormant bank accounts⁸⁶

Year/Month		Major developments
2011	July	Consideration of utilizing dormant bank accounts was mentioned in the report documents of a new public promotion conference, "Expert Examination Meeting Related to the State of Public Contracts of the Government and the Private Sector."
2012	March	Inauguration of the Dormant Bank Account National Conference
	July	The effective utilization of dormant bank accounts as the supply source of growth money was mentioned in the Growth Finance Promotion Conference ⁸⁷
		Dormant bank accounts are positioned as a priority measure regarding financial strategies in the Japan Revitalization Strategy ⁸⁸
	November	Dormant bank account White Paper issued
2013	January	Discussion on dormant bank account utilization among congressmen of all parties at the symposium "Dormant Bank Accounts Make the Future Of Japan" held by the National Council of Dormant Bank Accounts

⁸⁶ The activities are arranged in chronological order and no other connection is indicated. (Same for other proposals)

⁸⁷ July 9th, 2012 "Summary of the Growth Finance Promotion Conference" (Growth Finance Promotion Conference)

⁸⁸ July 31st, 2012 Japan Revitalization Strategy (Cabinet decision)

2014	April	Establishment of the Parliament Association of Dormant Bank Account Utilization Promotion (there have been many working conferences since).
	May	The First Dormant Bank Account Utilization National Caravan (Miyagi, Aichi, Osaka, Fukuoka) was hosted by the Dormant Bank Account National Council (May-June)
	October	The Dormant Bank Account National Council submitted a petition ⁸⁹ for dormant bank account utilization to the Parliament Association of Dormant Bank Account Utilization Promotion
	November	Utilization of dormant bank accounts was mentioned in the expert examination meeting, “Selecting Future Committee Reports,” held by the Council on Economic and Fiscal Policy
2015	May	The Parliament Association of Dormant Bank Account Utilization Promotion collected public comments concerning “bills regarding the transfer, management, and utilization of dormant bank accounts.”
		Proposals for measures regarding the utilization of dormant bank accounts were presented in “Proposals for the expansion of social impact investments” by the National Advisory Board.
	September	“Outline of a bill on utilization of funds provided by dormant bank accounts for the promotion of private social welfare activities” was made public
	October	The Second Dormant Bank Account Utilization National Caravan (Okayama, Osaka, Ehime, Miyagi, Tokyo) was hosted by the Dormant Bank Account National Council (October-December)
2016	May	Deliberations on “Bills regarding the transfer, management, and utilization of dormant bank accounts” started in the ordinary Diet (continuous deliberation)

Furthermore, as for the specific operating standards and policies for the dormant bank account utilization, after the enactment of the bill, a detailed consideration will take place at the Dormant Bank Account Utilization Deliberation Council, which was incorporated into the Cabinet Office. The dormant bank account utilization plans as presented in the bill summary are shown below.

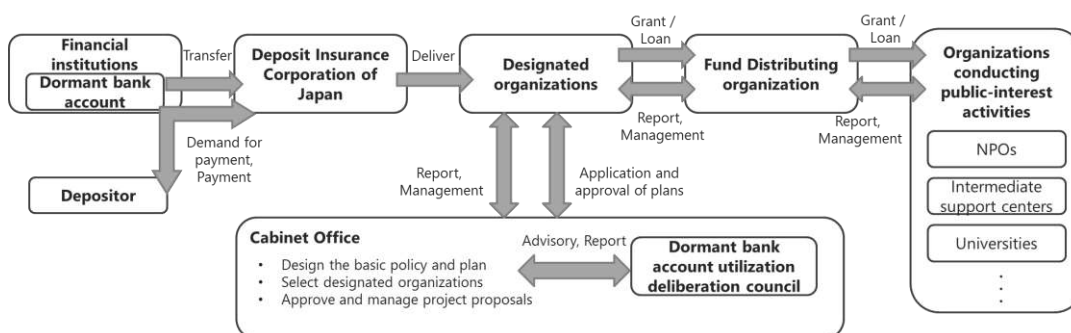


Figure III-2 Transfer/management/utilization plan (draft) for dormant bank accounts⁹⁰

⁸⁹ Dormant Bank Account National Congress “Request”

⁹⁰ As of August 26th, 2016, Deposit Insurance Corporation of Japan website

In the future, we can anticipate continuous adjustments to be made working towards the enactment of the bill at the extraordinary Diet held in the fall of the same year, promoting capacity building for support organizations which will cultivate an environment in which dormant bank accounts can be utilized for social impact investments, including the concurrent proposal for the "permeation of social impact measurement."

2. INTRODUCTION OF THE SOCIAL IMPACT BOND (SIB) AND DEVELOPMENT IMPACT BOND (DIB)

1 Proposal Background

SIB⁹¹ involves the provision of effective service based on funds supplied by investors, and is a method of social impact investment by means of results-based public-private partnerships, in which the government repays funds to investors according to the service results. The main source of the redemption fund provided to the investors comes from future administrative cost reduction effected by preventive service, and if the target set beforehand is not reached, the government does not provide the investors with the redemption fund.

The SIB arrangement is as follows:

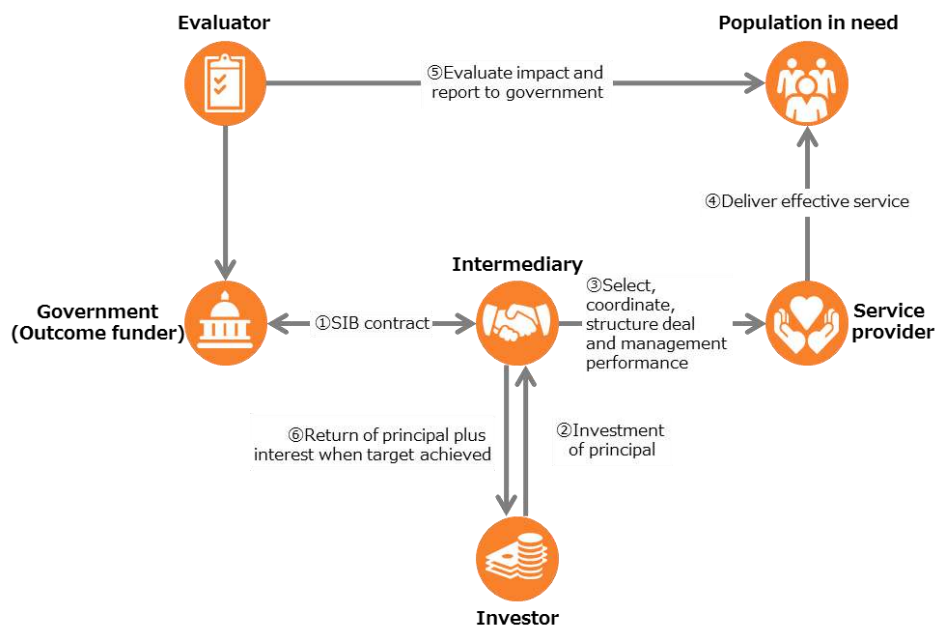


Figure III-3 Structure of Social Impact Bonds

⁹¹ Social Impact Bond: A social impact investment method which started in England in 2010.

Because SIB evaluates the outcome⁹² of service instead of the process or results, and provides services that makes the most of the know-how of local people instead of what the government decides, it is a system in which innovation in government services can be expected.

In addition, by making results-based payments, it is possible to promote the implementation of preventive services that have a limited track record but are effective and efficient, which was difficult for the government to actively take part in until now. This is thought to reduce future administrative costs as well as promote finding answers for social issues.

SIB, which was first introduced in England in 2010, has had 60 projects in countries including the USA and Australia amounting to 20 billion yen (as of Jul 2016),⁹³ in fields such as recidivism, youth employment, support for the homeless, early education for children, and preventive medical care. Although SIB has not officially been introduced in Japan, plans for introducing SIB by conducting a pilot program⁹⁴ have been introduced.

2 Proposal Content (As of May 2015)

As mentioned previously, although pilot programs have been started in Japan, because SIB has not yet gathered much interest, the following proposal was made geared towards the official introduction of results-based payment contracts with the government.

Table III-4 Introduction of SIB • DIB

Proposal Theme	Introduction of Social Impact Bonds and Development Impact Bonds
Overview	Develop a suitable Japanese version of the SIB scheme in order to carry out projects introducing Social Impact Bonds (SIB).
Main point with regard to implementation	There is a need to consider the introduction of schemes that reduce investor risk as well as special measures to ensure that the merits of introduction for projects subsidized by the national government or prefectures are not lessened.
Items which should be prioritized	Consideration of the Japanese version of Social Impact Bonds. The creation of a place where stakeholders can gather to hold discussions and the trial/verification of the Japanese SIB scheme with intermediary support organizations taking the lead.
Specific actions and current progress ○ : In Progress △ : Under consideration	△ Budgetary measures by the Japanese government and prefectures in order to acquire good results through SIB. △ The Japanese government and private foundations will provide risk capital in order to reduce investor risk.

⁹² Using employment support services as an example, specific changes due to the services provided, such as “improvement of employment incentive” and “10 employed and still employed a year later” instead of “10 seminars held” and “interviews with 100 people”, are considered to be results and are evaluated.

⁹³ July 2016 “Social Finance: Social Impact Bonds, The Early Years” (Social Finance)

⁹⁴ Projects that test the SIB implementation process and service results by means of foundation aid and government contracting, and do not have a results-based contract with the government.

× : Not yet started	<p>× The issuer of bonds will provide adequate explanation and information disclosure in order to obtain good ratings and satisfy investors.</p> <p>△ Government and aid organizations will increase medium and long-term aid projects instead of one-year projects.</p> <p>○ Intermediary support organizations will create a place for stakeholders to gather and hold discussions concerning various schemes including a scheme which uses payment guarantees to reduce investor risk, and build up a track record by conducting small-scale trials.</p>
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3 Major new developments and future outlook regarding the proposal

The first SIB pilot project on special adoption was launched⁹⁵ in Yokosuka City in April 2015, and pilot programs for dementia prevention⁹⁶ were held by several local governments including Fukuoka City in June of the same year, while a pilot program in the field of youth employment⁹⁷ was also held in Amagasaki City in July of the same year.

Furthermore, the introduction of SIB programs in Japan is slated to be put up for consideration per government objectives⁹⁸ approved by the Cabinet in 2015 and 2016, which positions it as national policy. The Ministry of Economy, Trade and Industry (METI) and the Ministry of Health, Labour and Welfare (MHLW) in particular have been taking concrete steps. Continuing on from the pilot programs from 2015, in 2016 METI began project development aiming for the full-scale introduction of SIBs in 2017, considering results-based multi-year contracts in the healthcare industry with a number of local governments as well as ongoing formulation of manuals on the project development process. MHLW is looking into the possibility of introducing SIBs for research investigation projects related to child abuse prevention,⁹⁹ and it was reported in August, 2016 that there may be a request for budgeting related to the implementation of SIB model projects. and in August 2016, it has been reported that there may be a request for a budget for the implementation of SIB model projects¹⁰⁰.

In addition, The Nippon Foundation started its grant program for intermediary support organizations which develop SIB projects in April 2016, an SIB pilot project plan regarding child

⁹⁵ April 2015 Press Release "Participating in the first SIB pilot project in Japan, Nippon Foundation × Yokosuka City, for special adoption promotion" (Nippon Foundation)

⁹⁶ March 2016 "Fiscal 2015 Forefront of the healthcare industry, Promotion project for the development of industries that increase healthy life expectancy" (Ministry of Economy, Trade and Industry)

⁹⁷ July 2015 "Third SIB Pilot Project, Nippon Foundation × Amagasaki City, Cooperative project for youth employment support" (Nippon Foundation)

⁹⁸ "Revised Japan Revitalization 2015," "Basic Policy for Overcoming Population Decline and Revitalizing Local Economy 2015," "Basic Policy for Economic and Fiscal Management/reformation 2016," "Japan Revitalization 2016," "Nippon Ichioku-sokatsuyaku (Promoting Dynamic Engagement of All Citizens) Plan" and "Basic Policy for Overcoming Population Decline and Revitalizing Local Economy 2016"

⁹⁹ March 2016 "Survey results report of a study contributing to the promotion of regional child abuse prevention" (Ministry of Health, Labour and Welfare)

¹⁰⁰ August 24th, 2016 "Ministry of Health, Labour and Welfare, utilizing private funds for poverty alleviation" (Kyodo 47 NEWS)

poverty was announced in Yokohama City in July of the same year¹⁰¹, and a one-year results-based business consignment was offered related to promoting relocation to Himi City.¹⁰²

As mentioned above, the first official introduction of SIB by means of government results-based payments, which has been the initial goal, can be anticipated to take place in 2017. In the future, there will be a need for measures to cope with new issues, such as capacity building for those looking towards nationwide expansion, as well as institutional and financial backing for government implementation.

Table III-5 Major developments related to the introduction of SIB and DIB

Year/Month		Major Developments
2014	May	The Nippon Foundation started its SIB promotion project
	November	The Council on Economic and Fiscal Policy held discussions on social investment promotion at the expert examination meeting, "Selecting a Future Committee."
2015	April	The first SIB pilot program in Japan, for special adoption, was launched in Yokosuka City.
	May	Measures regarding the introduction of SIB were proposed in the National Advisory Board's "Proposals for the expansion of social impact investments."
	June	As a commissioned project by the Ministry of Economy, Trade and Industry, an SIB pilot project in the dementia prevention field was run by several local governments including Fukuoka City.
		The consideration of introducing SIB in Japan was 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 on June 30th.
	July	An SIB pilot project for youth employment was started in Amagasaki City.
2016	March	The possibility of SIB introduction for child abuse prevention was 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 started a grant project targeting intermediary support organizations which develop SIB projects.
	June	SIB utilization was mentioned in the Fundamental Policy for Economic and Fiscal Management and Reformation 2016, Nippon Ichioku-sokastuyaku (Promoting Dynamic Engagement of All Citizens) Plan, and the Basic Policy for Overcoming Population Decline and Revitalizing Local Economy 2016, which were approved by the Cabinet on June 2nd.
		As a commissioned project by METI, the development support for the official introduction of SIB in 2017 by multiple local governments was started.
	July	Yokohama City advertised an SIB pilot program in the child poverty field.

¹⁰¹ July 2016 "Public Proposal: Yokohama City Social Impact Bond (SIB) Model Project Commission" (Yokohama City)

¹⁰² July, 2016 "Commissioned project of promoting migration/settlement in Himi City 2016" (Himi City)

3. CORPORATE SYSTEMS AND CERTIFICATION WHICH FACILITATE SOCIALLY ORIENTED PROJECTS

1 Proposal Background

In Japan, because there is no legal structure nor certification system specific to socially-oriented projects, current projects utilize the legal structures¹⁰³ of business corporations or nonprofit corporations. Although each corporation has a historical context and role within its own system, because cross-sectional structures concerning social projects do not exist, they have suffered problems such as a lack of public understanding of these types of projects as well as insufficient support system formulation.

For example, if the party in demand of funds to make social impact investments has the legal structure of a nonprofit corporation, funds procurement is limited because investments cannot be made, regardless of the assumption that socially-oriented projects will be carried out. In addition, according to the general rule¹⁰⁴ in which income must not exceed the necessary costs when public interest corporations take part in social projects, although flexible financial operation which is necessary for smooth project operation may not be possible, if business corporations take part in social projects, problems such as not being able to have the support systems that nonprofit corporations have and not being able to obtain the understanding of the public arise.

Although corporate entities which are classified as business corporations are not expected to take part in social projects, there are businesses and nonprofit stock companies¹⁰⁵ that conduct social projects and there are many other situations like this where the actual situation is different from the institutional design.

It is assumed that businesses with the intention of solving social issues will continue expanding, and therefore, whether they are business or nonprofit corporations, the importance of structures that support businesses that solve social issues with flexible ideas will keep increasing.

Based on the situation at hand, corporate systems and authentication systems that can facilitate the implementation of social projects and are suitable for Japan are currently being investigated.

2 Proposal Content (As of May 2015)

Based on the above description of the situation, the following proposals were presented.

¹⁰³ This includes business corporations (joint-stock companies, limited liability companies, unlimited partnership companies, limited partnership companies), nonprofit corporations (NPO corporations, certificated NPO corporations, social welfare corporations, public interest incorporated associations/foundations, general incorporated associations/foundations, and cooperative associations such including small-to-medium-sized businesses), as well as unincorporated organizations (partnerships based on the civil law, dormant partnerships, LLP (Limited Liability Partnership: Limited Liability Business Partnership), and undefined corporations).

¹⁰⁴ Regarding the law (Act No.49, 2006) concerning the certification of public interest incorporated associations and foundations, for public interest projects as well as the amount of property not specifically decided whether to be used (idle property amount) for activities necessary for such projects, restrictions towards possessing public interest project costs equivalent to that of one year was installed as a standard for the public interest certification, and this standard must be met.

¹⁰⁵ Corporations which have specified in the agreement that profit will be used to contribute to society instead of giving all profit available for dividend to shareholders. (The same applies in the case of dissolution)

Table III-6 State of corporate systems and certification which facilitate socially oriented projects

Proposal Theme	Corporate systems and certification which facilitate socially oriented projects
Overview	Creating corporate systems and certification systems in order to facilitate project implementation and financing of social corporations.
Main point with regard to implementation	It is necessary to promote the establishment of new corporate systems suitable for social projects as well as to consider certification systems.
Items which should be prioritized	Creating opportunities to consider new corporate systems/legal frameworks or the establishment of certification systems. Keeping the goal of social investment tax reduction in view, discussions between the government and private sectors on new corporate systems and the establishment of certification systems for social projects should be immediately arranged.
Specific actions and current progress ○ : In Progress △ : Under consideration × : Not yet started	○ Develop discussions between the government and the whole social sector on the establishment of a new legal structure or legal framework for social projects. × Along with the above, certification systems for social corporations should be built cross-sectionally with the current legal system. △ The government and private sectors should cooperate in creating opportunities to consider these two points. In addition, when considering these points, a concrete approach should be discussed with the possible application of social investment tax reduction, which is mentioned in this proposal, in mind.

3 Major new developments and future outlook regarding the proposal

In terms of major steps taken by the government, METI's Research Society for the Creation of Japanese Earning Power made a reference in June, 2015 to "Local Management Corporations" (provisional name) which would "provide basic services in a comprehensive and effective manner to support local communities, under adequate governance." In addition, the Cabinet Secretariat's "Basic Policy for Overcoming Population Decline and Revitalizing Local Economy" (2015 Revised Edition) from December of the same year specifies that by 2019, "necessary systematic improvements will be made based on the results of studying the state of business entities." In response to this, METI's Research Society on the State of Service Business Entities Supporting Local Communities began looking into the situation in November, 2015, compiling a report in April, 2016.

As for the private sector, the Silk Wave Industry obtained certification as a "B Corporation"¹⁰⁶ created and managed by the American nonprofit organization B Lab, for the first time in Japan. This was followed by the Ishii Zoen also receiving B Corporation certification in May of the same year. In addition, the B Lab Japan Establishment Preparation Committee, for the promotion of obtaining B Corporation certification, was created.

¹⁰⁶ B Corporation is a private assessment system, operated by B Lab based in the USA, which certifies corporations which meet the standards regarding society, environment, community and governance, and over 1,300 corporations in 42 countries have been certified.

In addition, the Japan Center for NPO Evaluation was established in April 2016. It conducts organization evaluations¹⁰⁷ aiming to enhance the support environment and improve the operations of nonprofit corporations from an independent position, adding to the reliability of the organizational operation of nonprofit corporations.

In the future, although governmental institutionalization of social projects is expected to take place by fiscal 2019, there have been developments in the private sector including B Corporation certification, and as stated in the Specific Actions in the proposal, an overall design that includes a division of roles and which takes place in an open space will lead to synergy between the government and the private sector, and there will be a need for facilitation of discussion on the establishment of a new legal framework for social projects.

Table III-7 Major developments related to the state of corporate systems and authentication which facilitate socially oriented projects

Year/Month		Major Developments
2005	June	Establishment of the public welfare community site, CANPAN.
2008	February	Establishment of a parliamentary association which considers the Cooperatives Act for cooperative investments/cooperative management.
	April	METI's "Social Business Research Society" mentions the evaluation of social business structure and improving the certification framework.
	June	Nonprofit stock companies were mentioned in the Cabinet Office's "Investigation of the funds flow system which supports public wealth."
2010	February	Proposals on institutional investigation geared towards social business revitalization were presented in METI's "Research project on the statistics and institutional examination of social business."
2011	February	Establishment of the Social Authentication Development Promotion Organization.
	March	The organization of discussions as well as the state of support for social businesses were examined in METI's "Social Business Promotion Research Society."
		The possibility of introducing social firms ¹⁰⁸ in Japan was considered in MHLW's "Research survey concerning social firms as a new form of employment for persons with disabilities."
2015	May	Measures concerning the state of corporate systems and authentication to facilitate social projects were proposed in the National Advisory Board's "Proposals for the Expansion of Social Impact Investments."
	June	The consideration of Local Management Corporations (provisional name) was mentioned by METI's "Research Society for the Creation of Japanese Earning Power."

¹⁰⁷ Based on the evidence presented together with the self-evaluation of the organizations, evaluation will be conducted by the Japan Center for NPO Evaluation. "Project implementation and organization mission", "governance", "compliance", "transparency" and "office management" are the 5 main evaluation items. (As of August 2016)

¹⁰⁸ Social firms do not seek profit, but rather employ persons with disabilities as well as those at a disadvantage in the labor market. In addition, it is a social project which minimizes the use of subsidies while working on equal ground with non-disabled people, and it has spread mainly in Europe.

	December	According to the Cabinet Secretariat in the "Basic Policy for Overcoming Population Decline and Revitalizing Local Economy (2015 Revised edition)," which was approved by the Cabinet on December 24th, 2015, it was stated that necessary system improvements are to be made by fiscal 2019.
2016	March	Silk Wave Industry became the first in Japan to obtain B Corporation certification.
	April	Establishment of the Japan Center for NPO Evaluation.
		METI's "Research Society on the State of Service Business Entities Supporting Local Communities" examined the state of corporate systems based on both domestic and international activities.
	May	Ishii Zoen became the second to obtain B Corporation certification in Japan.

4. ESTABLISHMENT OF A SOCIAL INVESTMENT TAX REDUCTION SYSTEM

1 Proposal Background

Social investment tax reduction refers to an incentive by way of tax reduction for investments in social projects. The purpose is to increase motivation to invest in social projects by providing a financial incentive for investors through social investment tax reduction; however, the feasibility of this system is not being studied in Japan at the present time.

2 Proposal Content (As of May 2015)

There are various methodologies which can be looked into when considering social investment tax reduction systems, based on the investors (private/corporate, financial institution/foundation, etc.), the method of funds provision (direct financing/indirect financing), and the receiver of funds (the corporate structure/certification system of the target social business). As the receiving end of the funds has already been touched upon under the previous proposal related to the "state of corporate systems and certification which facilitates social projects," proposals related to the remaining factors of the "method of funds provision" and "investors" will be shown below.

Table III-8 Establishment of a social investment tax reduction system

Proposal Theme	Establishment of a social investment tax reduction system
Overview	The tax reduction system will be established as a financial incentive from the perspective of increasing the motivation of private and institutional investors to invest in social projects.
Main point with regard to implementation	In order to make the system work in Japan, the definition, user, and expected effect must be made clear.
Items which should be prioritized	Consideration of specific plans towards creating the framework for the social investment tax reduction. With a view to getting a clear picture of the system design, the social investment tax reduction system can be implemented on a trial basis by utilizing a special zone system. Additionally, in order to make sure the system will not be limited, continuous requests for tax reformation and establishment of this system will be made.

Specific actions and current progress ○ : In Progress △ : Under consideration × : Not yet started	×	The government/private sectors will work together to consider specific plans to create the framework for social investment tax reduction. The subject of tax reduction and the fund supply method will be made clear during this discussion.
	×	The government/private sectors will conduct research in order to clarify user profiles, volume, and social benefits which come from investment tax reduction.
	×	The government will link this project to the promotion of utilizing dormant bank accounts, and design an investment tax reduction system for financial intermediaries and private businesses. In addition, by linking this with investment tax reduction, and by means of both financial and management support, the capacity building of financial intermediary organizations will be conducted.
	×	Social sectors will actively present policy proposals while deepening partnerships with the sector as a whole.

3 Major new developments and future outlook regarding the proposal

The Ministry of Economy, Trade and Industry's "Research Society on the State of Service Business Entities Supporting Local Communities" mentions social investment tax reduction and the New Economic Union also issued a proposal for tax breaks on social impact investments, but there is no concrete study being pursued at this time. In the wake of the progress of the proposal under review for "Corporate systems and certification which facilitate social projects," an in-depth study of the complete picture of social investment tax reduction, including the receiving end of the funds, should be pursued concurrently.

Table III-9 Major developments related to the establishment of the social investment tax reduction

Year/Month		Major Developments
2015	April	The necessity of social investment tax reduction was mentioned in the Nippon Foundation's "Frontline of social investments in Japan."
	May	Measures concerning the establishment of a social investment tax reduction system were proposed in the National Advisory Board's "Proposals for the expansion of social impact investments."
2016	April	Social investment tax reduction was mentioned by METI's "Research Society on the State of Service Business Entities Supporting Local Communities."
		The New Economic Union proposed the expansion of venture investment tax reduction to social impact investment in their "Proposal concerning venture philanthropy and social impact investments."

5. PERMEATION OF SOCIAL IMPACT MEASUREMENT

1 Proposal Background

According to the report from the Cabinet Office¹⁰⁹, the definition of social impact is the “social and environmental outcome of relevant project and activities, including both short and long term changes,” and social impact measurement involves comprehending social impact in a quantitative and qualitative way as well as judging the value of the projects and activities concerned. However, this definition is not absolute, and it varies according to the setting it is used in.

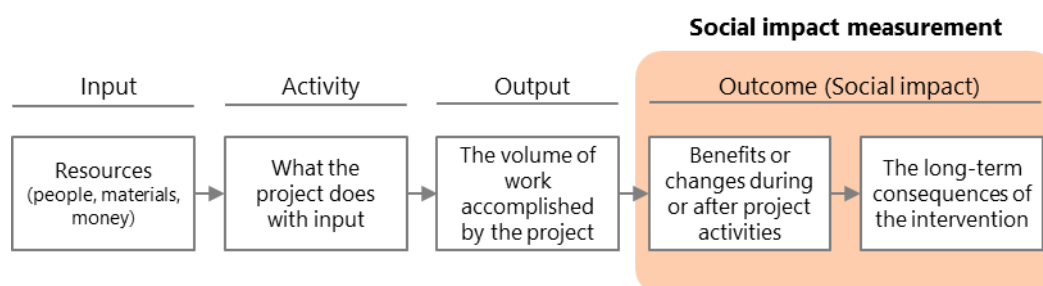


Figure III-4 Targets of social impact measurement
※ Created by the author based on the Cabinet Office report

The evaluation of social impact is an important component of the expansion of social impact investing, but the implementation of social impact measurement in Japan is not yet pervasive.

According to a survey conducted by the Nippon Foundation,¹¹⁰ 32.8% of the major nonprofit organizations evaluate social impact, and in addition to financial issues, a lack of personnel with the skills or expertise needed to evaluate, and not knowing what sort of evaluation should be done were raised as issues affecting their ability to carry out social impact evaluation.

Business corporations have created sustainability reports as well as corporate CSR reports which use the sustainability report guidelines¹¹¹ as a reference, and as one part of this, there have been cases in which information on how much social impact was brought about by corporate activities has been released.¹¹²

When it comes to the investors, although there are a few organizations¹¹³ which request evaluation or reports on the social impact of the party receiving the funds at the time of selection or during the monitoring period after investment, the number of such organizations is small.

¹⁰⁹ March 2016 “Towards the promotion of social impact measurement” (Cabinet Office)

¹¹⁰ June 2016 “Implementation condition of social impact measurement related to social sectors in Japan” (Nippon Foundation)

¹¹¹ Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), as well as the International Integrated Reporting Council (IIRC) are included

¹¹² Microsoft “Youth UP Project”, Sampo Japan Nipponkoa “SAVE JAPAN PROJECT”, and Panasonic “NPO support fund” are included.

¹¹³ Japan Venture Philanthropy Fund, Toyota Foundation and JICA are included

2 Proposal Content (As of May 2015)

Although social impact measurement has been carried out by some organizations, it is far from permeating the system. Based on the need to cultivate achievement-oriented awareness, the following proposals were made.

Table III-10 Permeation of social impact measurement

Proposal Theme	Permeation of social impact measurement
Overview	Establishing a measurable goal concerning the social impact brought about by social corporations and improving the monitoring environment
Main point with regard to implementation	A place where social corporations can logically analyze and organize their own business results according to aspects such as input, output and outcome, as well as present results to investors, must be created.
Items which should be prioritized	Implementation of impact evaluation and cultivating achievement-orientation in the social sector. Improve environment in order to facilitate impact evaluation conducted by social corporation by means of improving the application format for subsidy as well as installing subsidized projects integrated with evaluation processes.
Specific actions and current progress ○ : In Progress △ : Under consideration × : Not yet started	<p>△ The government and grant-giving organizations must promote the achievement orientation of companies by creating an entry column for input, output and outcome on the application form for subsidies and grants.</p> <p>△ The government and grant-giving organizations should install categories for subsidized projects integrated with social impact measurement.</p> <p>△ Board members of dormant bank accounts and grant-giving foundations must cooperate with evaluation specialists so that social corporations do not have to evaluate independently, and tools must be developed in order to simplify social impact measurement with adequate interpretability for investors.</p>

3 Major new developments and future outlook regarding the proposals

In March 2016, the results of a working group led by the Cabinet Office on the evaluation of social impact were reported, and as a form of response, a private-sector-led platform to raise public awareness of the evaluation of social impact in Japan, the "Social Impact Measurement Initiative," was launched in June of the same year, and along with this, the National Advisory Board also released its social impact measurement tool set.¹¹⁴

¹¹⁴ The manual for implementing social impact measurement is made by means of the tool set required for evaluation including the performance indicator in each category (education, employment support as well as community building). Updates, in addition to the expansion of object categories, are scheduled to be made.

In the future, with the Social Impact Measurement Initiative as the center, the formulation and realization of a road map towards permeation of social impact measurement is expected through cooperation and co-ownership with various parties.

Overview

"Social Impact Measurement Initiative", a platform led by private sectors cooperating with service providers, intermediaries, think-tanks, investors, evaluators, researchers and government, with the purpose of raising public awareness of social impact measurement in Japan, was launched in June, 2016.

※ As of Aug 2016, 65 organizations had participated.

Major activities in 2016

- ① Held an establishment meeting, general meeting and project meetings
- ② Hosted "Social Impact Day 2016," a symposium on social impact measurement
- ③ Launched a website (version β) as a resource center providing resources about social impact measurement including measurement tools and information
- ④ Created and worked on the roadmap for furtherance of social impact measurement
- ⑤ Consolidated the basic guidelines for "Theory of Change" and "Logic Model" in Japanized version
- ⑥ Managed the resource center (website) providing a resource for measurement tools and information
- ⑦ Accumulating best practices and knowledge sharing by means of peer review
 - ※ Held workshops and small sessions for opinion exchange

Projects aimed at furtherance of social impact measurement

- ① Project on roadmap
- ② Project on creating measurement tools
- ③ Management of the resource center
- ④ Accumulating and working on the best practices
- ⑤ Providing a training program on social impact measurement especially for evaluators of foundations

Figure III-5 Overview of the Social Impact Measurement Initiative

Table III-11 Major developments related to the permeation of social impact measurement

Year/Month		Major Developments
2015	March	Measures regarding the promotion of social impact measurement were proposed in the "Survey of actual conditions and proposals towards the promotion of social impact measurement" from the Foundation for Advanced Studies on International Development (a general incorporated association in Japan).
	April	The project management tool, "newdea," which can manage social impact, started operation in Japan.
	May	Measures regarding the permeation of social impact measurement were proposed in the National Advisory Board's "Proposals for the expansion of social impact investments."
	November	The "Promotion conference for grants/subsidies for achievement-orientation in Aichi" began.

2016	March	Issues and countermeasures towards the promotion of social impact measurement were considered in the Cabinet Office’s “Working Group for Social Impact Measurement Consideration.”
	May	A social impact measurement model project was begun as a commissioned project by the Cabinet Office.
	June	The current conditions of social impact measurement within leading nonprofit corporations were reported in The Nippon Foundation’s “Implementation status of social impact measurement related to the social sector in Japan.”
		The “Social Impact Measurement Initiative” platform, which is led by the private sector and promotes the permeation of social impact measurement in Japan, was started.
		The National Advisory Board released a social impact measurement tool set.

In addition, with regard to international developments, the “Sustainable Development Goals (SDGs)¹¹⁵” which were raised in the “2030 Agenda for Sustainable Development” adopted by the United Nations in September 2015 can be cited. In order to successfully bring about the SDGs, cooperation across various sectors including the business sector, civil society, and the government is important, and from here on there will be increasing discussion in Japan on initiatives which are geared toward achieving the goals as well as discussion on how to evaluate said initiatives. Currently in Japan, although there are some cooperative movements which transcend the industrial, academic and private sectors, such as the OPEN 2030 PROJECT¹¹⁶, systematic evaluation with the perspective of the SDGs in mind will need to be studied over the long term. Cooperation among various sectors, with both international cooperation and domestic issues in view, will also be important in the future.

6. CLARIFICATION OF FIDUCIARY LIABILITY

1 Proposal Background

The participation of institutional investors, which has manifested its presence in the investment market, is crucial to the expansion of social impact investments.

When institutional investors invest, it is required that there be no violation of legal fiduciary liabilities,¹¹⁷ but there have been concerns about the possibility that managing assets by considering ESG and social impact, which are non-financial in nature, could violate fiduciary liabilities.

However, in the Principles for Responsible Investment¹¹⁸ formulated in 2006, it was stated that considering ESG, which is non-financial information, is within the scope of fiduciary liabilities, and as the correlation with operational performance is being recognized, there has been a subsequent change of thinking in Western countries, in which investments that do not take ESG into consideration may be the ones which could violate fiduciary liabilities.

¹¹⁵ United Nations Information Center website

¹¹⁶ OPEN 2030 PROJECT website

¹¹⁷ According to the Financial Instruments and Exchange Act, the financial instruments business operators, who have an important role concerning investors’ asset management, must have a compliant attitude which involved fulfilling the duty of loyalty, due care, and ensuring segregated management towards investors who entrusted the operation.

¹¹⁸ Principles for Responsible Investment : PRI

Although Japan has been influenced by Western countries and it has become widely recognized among specialists that the consideration of non-financial circumstances does not violate fiduciary liabilities, public understanding is insufficient. Currently, if a loss is suffered after social impact investment or ESG investments, investors may assume and level the criticism that the loss was caused because non-financial information was considered, and therefore few institutional investors have made ESG investments.

When comparing social impact investment and ESG investment, ESG investment places more emphasis on the circumstances and intentions of the investor, while social impact investment places more emphasis on the recipient of funds creating social impact. On the other hand, as both investments take non-financial information into consideration and pursue both a financial and a social return, it can be said that the investment activity concepts are relatively similar.

Therefore, on the matter of whether or not social impact investments violate fiduciary liabilities, further study which uses ESG investment as a benchmark is needed.

2 Proposal Content (As of May 2015)

The following proposals were made in order to clarify that social impact investments do not violate fiduciary liabilities. They are based on the process which clarifies that ESG investments do not violate fiduciary liabilities.

Table III-12 Clarification of fiduciary liability

Proposal Theme	Clarification of fiduciary liability
Overview	Confirming that social impact investments do not violate fiduciary liabilities and improve the environment in order to make institutional investors' integration of investment portfolios easier.
Main point with regard to implementation	Improve the environment to facilitate the introduction of social impact investments by institutional investors by cultivating public understanding and enhancing the provision of information.
Items which should be prioritized	Development of the first institutional investor project in Japan. Japan's first institutional investor social impact investment project should be produced by means of private foundations, and after creating a precedent for operation guidelines, the information should be transmitted to other funds including the Pension Fund.
Specific actions and current progress ○ : In Progress △ : Under consideration × : Not yet started	△ Social corporations and financial intermediary organizations should make the fact that social corporations are carrying out their activities by means of social impact investments widely known in order to cultivate public understanding. × The public should take the stance of participating in planning mid to long term community establishment projects through the pension fund. × The government and intermediary support organizations will indirectly support social corporations and work towards enhancing high-quality information as well as improving information access.

	× Private foundations working for public welfare will implement social impact investments by reexamining operational guidelines and sharing data on precedents with the asset owners.
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3 Major new developments and future outlook regarding the proposal

Although there are no developments directly related to the clarification of social impact investment’s impact on fiduciary liabilities, as the Government Pension Investment Fund (GPIF), which is the institutional investor with the biggest asset management scale in Japan, signed the United Nations Principles for Responsible Investments (PRI) in September 2015, it can be assumed that the interest of institutional investors, particularly the Pension Fund, in investments which take non-financial information into consideration will increase.

In addition, in the same month of the same year, BlackRock Japan, which is an international-scale institutional investor, set up a new investment with impact investments as its theme. Although this is not included in the market scale measurements as it does not apply to the definition of social impact investments of this report, it is noteworthy to see that products seeking social impact in addition to ESG investments of institutional investors have increased.

However, as there has been little sign of progress regarding the proposed items, it is necessary to take time to deepen discussions as well as promote the development of the first project by institutional investors.

Table III-13 Major developments related to the clarification of fiduciary liability

Year/Month		Major Developments
2010	March	Kamakura Investment Management installed an investment trust, “Yui 2101,” which includes investments in social corporations, into its portfolio.
2015	May	Measures concerning the clarification of fiduciary liabilities were proposed in the National Advisory Board’s “Proposals for the expansion of social impact investments.”
	September	The Government Pension Investment Fund (GPIF) signed the United Nations Principles for Responsible Investment (PRI).
		BlackRock Japan established an investment fund ¹¹⁹ for shares in developed countries with impact investments as the theme.
2016	March	Social impact investments were mentioned in the “Japan Sustainable Investments White Paper 2015”.

¹¹⁹ Because the “BlackRock Impact Corporation Fund” is not applicable to the definition set in this report, it is not included in the market scale of social impact investments in Japan

7. INCREASING PRIVATE INVESTORS

1 Proposal Background

Because increasing the number of private investors who shoulder social impact investments will lead to the expansion of direct social impact investments as well as the cultivation of public understanding of social impact investments, it is an important activity which indirectly affects the actions of institutional investors. However, according to the survey results¹²⁰ released by the Central Council for Financial Services Information in 2015, the ratio of households with financial assets were 69.1%, and although the average amount for households with financial assets was 18.19 million yen, savings amounted to 9.7 million yen (53.2%) and only 3.21 million yen (17.7%) were in securities (stocks, bonds and investment trust), which shows that the practice of investing has not become widespread.

On the other hand, there are examples of a flow of funds which is intended to have social impact including the Daiwa Microfinance Fund, which invests in microfinance institutions in emerging countries, the Japan International Cooperation Agency (JICA) bonds¹²¹ geared toward individuals and utilized for technical and financial support for developing countries, securities in crowdfunding investment, and civil funds in which citizens have made contributions towards a better community, so there is great potential for growth in this area.

2 Proposal Content (As of May 2015)

The following proposals were made in order to reveal potential private investors and have them take on social impact investments.

Table III-14 Increasing private investors

Proposal Theme	Increasing private investors.
Overview	Creating opportunities for society as a whole by heightening national investment literacy and revealing potential investors.
Main point with regard to implementation	Potential private investors' understanding must be promoted by communicating information that shows how social impact investments are useful in solving social issues regarding wider generations.
Items which should be prioritized	Building an information platform for social impact investments Building an information platform for social impact investments which supports decision-making by private investors regarding investments.
Specific actions and current progress	△ By concentrating on investing in segments with relatively high risk, grant-giving organizations will create an environment where private investors can invest in segments with relatively low risk as well as expect a financial return.
○ : In Progress △ : Under consideration	× Financial intermediary organizations will develop products related to social impact investments and gather/provide investment-related

¹²⁰ 2015 “Public Opinion Poll concerning household financial activities (2015) (survey for households with 2 or more people)” (The Central Council for Financial Services Information)

¹²¹ Issued 6 times with a total of 60 billion yen beginning in 2011

× : Not yet started	<p>information that is reliable and easy for private investors to understand.</p> <p>△ Bond-issuing entities will develop products limited to investments with social significance and explain their significance to the investors in a simple manner. IR (investor relations) which makes use of opportunities including inspections, seminars, and newspaper advertisements will be enhanced.</p> <p>× The government, including local governments, will give political consideration for funding entities including civil funds to be able to continue their activities. In addition, institutional support will be offered to protect private investors using information platforms as well as promoting its use.</p> <p>× Social corporations will create good practice through the project, "Social impact investments help solve social issues", and disseminate information about it to the public.</p>
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3 Major new developments and future outlook regarding the proposal

Although the entry requirements for stock-investment type crowdfunding were relaxed in May 2015 and an increase in the entry of new crowdfunding businesses was anticipated, to date there have been no noticeable developments.¹²² The Cabinet Office has been promoting the "Furusato Investments (Hometown Investments)¹²³" which utilizes crowdfunding, and a guide for Furusato Investments with local governments and local financial institutions as its target was published in May 2015. Securite, a micro-investment crowdfunding platform, has seen an increase in projects cooperating with local governments.

In addition, there has been nationwide expansion of citizen action with the establishment of the "Community Power Association," a national network organization of civil energy funds, and "Community Foundations Japan," which is a similar organization of community foundations.

Table III-15 Major developments related to increasing private investors

Year/Month	Major Developments
2009	February
2010	March
2014	May

¹²² In July 2016, AIP Securities Co., Ltd alone expressed their interest in participating, which would be a first for Japan.

¹²³ At the Network Council of the Cabinet Office, "Furusato Investments" was defined as "small investments using methods such as crowdfunding for projects that support activities which contribute to regional revitalization including the branding and utilizing of local resources, which also maintain harmony with the activities of community building organizations as well as those of regional governments."

	June	Community Foundations Japan was established.
2015	May	The Cabinet Office's "Guide for Furusato Investments" was published, promoting the utilization of small loans including crowdfunding.
		Measures related to the increase of private investors were proposed in the National Advisory Board's "Proposals for the expansion of social impact investments."

Furthermore, the increase of private investors is considered to indirectly affect the market expansion of donations as well as ESG investments. Due to private investors who make conventional investments becoming more social impact-oriented, it can be assumed that as ESG investments expand, there will be a pattern of making social impact investments as well as a pattern of donors who seek financial return providing social impact investments.

As mentioned above, expansion in the ESG market can be expected based on BlackRock Japan's launch of an investment trust with impact investments as its theme as well as GPIF signing the PRI. In December 2014, the social factor of the investment and loan policies of major banks in Japan was evaluated and rated, and the results were shown in a simple manner in the Fair Finance Guide 2016 (Japanese Version) which was published thereafter. Although this has little direct influence on social impact investments, it can contribute to the promotion of overall social impact orientation as it can be used as an evaluation standard for social impact when private investors utilize funds.

According to Giving Japan 2015¹²⁴, the donation market has expanded from a total of 693.1 billion yen related to private investments in 2012 to 740.9 billion yen in 2014, the promotional campaign for national donations, "Donation Month - Giving December"¹²⁵ was held in the month of December, 2015, and additional expansion can be expected with the participation of 122 corporations and 23 official authorized projects.

Based on the current progress, building an information platform which targets the increase of private investors who make social impact investments is necessary.

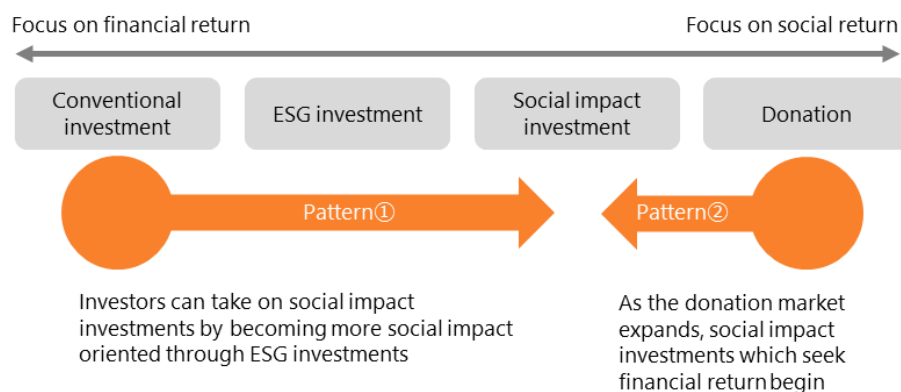


Figure III-6 Increasing private investors by means of the expansion of ESG investments and the donation market.

¹²⁴ 2015 "Giving Japan 2015" (Japan Fundraising Association)

¹²⁵ 2015 "Monthly Donation Report 2015" (Monthly Donation Secretariat)

IV Prospects of the Social Impact Investment Market and Necessary Activities

The social impact investment market scale in Japan is expanding, with approximately 17 billion yen in 2014 increasing to 33.7 billion yen in 2016. However, although some of the proposals made for the expansion of social impact investments are in progress, there are still many projects which have not been started yet, including some with uncertain completion stages.

While the original seven proposals should be continued in order to work towards the expansion of social impact investments, the following are additional activities which are considered to be necessary.

Necessary activities which were not proposed

The proposals contain new initiatives which are coming up in the government as well as the private sector. Therefore, it is necessary to draw up a plan and promote it in order for these projects to have a synergistic effect. In addition, as the proposals are all mutually complementary, an entity which can take the initiative in managing the entire body of the proposals as one is needed in order to expand social impact investment in the most suitable way for Japan. The National Advisory Board has been at the center in Japan with regard to sharing the latest information as well as considering necessary activities including the proposals. In the future, while continuing the current endeavors, it will also be necessary for those involved with social impact investments to establish a platform including the demand-side of funds, investors, and those involved in financial intermediary organizations.

This platform will aim for the expansion of social impact investments with many players coming together and should involve the standardization and sharing of the most up-to-date information concerning local areas such as the know-how and tools, updates on social impact investment projects, as well as the unifying information necessary for social impact investments including matching support to investors.

When it comes to the government in particular, what is required are decisions from the Ministries with jurisdiction to promote social impact investment and the promotion from appropriate Ministries of cross-Ministry policies and investigating the financial issues.

Another important factor in order to implement social impact investments will be capacity building of financial intermediary organizations which connect the demand-side of funds, who carry out the social projects, and the investors, including both private and institutional investors. Financial intermediary organizations require a network with social businesses and support know-how in addition to expertise in finance related to investments and loans. The organizations that began making social impact investments in the two years since 2014 are KIBOW and the Japan Venture Philanthropy Fund, and organizations that have both social and financial skills are limited. Models for the implementation of social impact investments based on cooperation of staff with different skill sets are necessary for the different types of know-how to be compatible. In Japan, there are already initiatives for loan programs, such as the previously mentioned Change (the cooperative project of Seibu Shinkin Bank, ETIC, and The Nippon Foundation), as well as for investments for which Mitsubishi Corporation Disaster Relief Foundation cooperates with local financial institutions, and the expansion of models which implementing social impact investments in cooperation with local

financial institutions and intermediary support organizations which support social projects is anticipated.

Education and training for the development of human resources related to financial intermediary organizations are also necessary. For example, in addition to the implementation of social impact investment training in each organization, considering programs in which trainees can get the needed practical experience by means of activities such as mutual personnel exchange between financial institutions and intermediary support organizations would be ideal.

In addition to this, in order to promote investor activities, each organization's proactive participation is desirable. For instance, in the case of the Canadian Credit Union Association,¹²⁶ there was active participation on the part of local financial institutions such as the formulation of guidelines in order to develop social impact investment products for individuals. Basic surveys such as opinion surveys for private investors concerning social impact investments are also thought to promote social impact investment activities among financial institutions. Additionally, although currently limited in Japan, environment improvement by means of foundations with important roles regarding market expansion in order to promote social impact investments is anticipated.

Future Outlook

The most significant development related to social impact investments that can be expected is the launch of SIB as well as the utilization of dormant bank accounts as shown in the proposals.

The bill concerning dormant bank accounts will be enacted in 2016 at the earliest, and it is assumed that actual utilization will begin after 2 or 3 years. Although it also depends on the decision of the Dormant Bank Account Utilization Council, the annual amount of dormant bank accounts is estimated to be about 50 billion yen, and considering the role in the development of social impact investments which dormant bank account utilization had in England, a similar expansion in social impact investments can also be anticipated in Japan. However, because of the fact that dormant bank accounts exist on the assumption that they will be paid back to the depositor, in addition to the improvement in the accuracy of account-holder identification and publicity, the possibility of a decrease in funds must be taken into consideration. Rather than depending on these funds on a long-term basis, it would be ideal to consider improving the overall environment for the expansion of social impact investments. In addition, as a premise for the implementation of sound social impact investments, systematic improvement incorporating the capacity building of financial intermediary organizations and the permeation of social impact measurement, which is still new in Japan, is necessary.

If the first SIB is introduced in Japan in fiscal 2017, its nationwide expansion using the same model as the first project can be expected with the local government considering SIB implementation taking the lead. In addition, as the model project of the Ministry of Health, Labour and Welfare is to start in fiscal 2017, further expansion of SIB projects by local governments can be expected through the influence of the model projects.

Therefore, although there are various issues remaining, increased acceleration of the expansion of social impact investments can be expected by means of the promotion of the proposals. Because social impact investment is one of the tools which can solve social issues, by measuring its social

¹²⁶ May 2016 "A Guidebook for Canadian Credit Unions" (Canadian Credit Union Association)

value, a more stable project implementation is made possible. We hope that this report will contribute to the expansion of social impact investments as well as the solving of social issues.

APPENDIX

- Japan Finance Corporation (JFC) Social Business Support
<https://www.jfc.go.jp/n/english/>
- Citizens Energy Fund : Community Power Association
<http://communitypower.jp/> (Japanese only)
- Music Securities, Inc
<https://www.musicsecurities.com/> (Japanese only)
- Mitsubishi Corporation Disaster Relief Foundation
<http://mitsubishicorp-foundation.org/en/>
- Gojo & Company, Inc.
<http://gojo.co/>
- Daiwa Micro Finance Fund : Daiwa Securities Co., Ltd
http://www.daiwa-grp.jp/english/csr/report/2011/special_04.html
<http://www.daiwa-grp.jp/data/current/press-2943-attachment.pdf>
- National Association of Labour Banks NPO Loans :
<http://all.rokin.or.jp/english/>
http://all.rokin.or.jp/english/documents/2011guide_E.pdf
- Kamakura Investment Management Co., Ltd. Investment Trust “Yui 2101”
<http://www.kamakuraim.jp/> (Japanese only)
- Toyota Tsusho CSV Africa Pte. Ltd. (Toyota Tsusho Africa Fund)
<http://www.toyota-tsusho.com/english/>
http://www.toyota-tsusho.com/english/press/detail/161109_003865.html
- NPO Bank : Japan NPO Bank Network
<http://www.npobank.net/> (Japanese only)
- The Nippon Foundation “Wagamachi Fund”
<http://wagamachi.jp.net/> (Japanese Only)
<http://www.nippon-foundation.or.jp/en/>
<http://www.nippon-foundation.or.jp/en/news/articles/2016/23.html>
- Japan International Cooperation Agency, Overseas investment and loan projects
<https://www.jica.go.jp/english/index.html>
- Relationship Capital of Japan
<http://kyoueki.jp/> (Japanese Only)
- ARUN Limited Liability Company
<http://www.arunllc.jp/en/>

- Japan Venture Philanthropy Fund (JVPF)
<http://www.jvpf.jp/en/>
- Oikocredit Japan
<http://www.oikocredit.jp/> (Japanese Only)
- Benesse Social Investment Facility
<http://www.benesse.co.jp/> (Japanese Only)
<http://blog.benesse.ne.jp/bh/ja/news/m/2013/11/22/docs/20131122%E3%83%AA%E3%83%AA%E3%83%BC%E3%82%B9.pdf> (Japanese Only)
- General Incorporated Foundation KIBOW
<http://kibowproject.jp/en/>
- NPO SVP Tokyo
<http://www.svptokyo.org/english/>

