The Current State of Impact Investing in Japan

2019

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Global Steering Group for Impact Investment (GSG) National Advisory Board

Executive Summary

The Current State of Impact Investing in Japan

According to the survey of the GSG National Advisory Board in 2019, it is confirmed that the balance of impact investing in Japan reached at least JPY 317.9 billion.
The survey also shows that 5 new entrants executed impact investing this year while 9 out of 11 organizations executing impact investing which had continued to reply the questionnaires since 2018 expanded their activities.

2019 Highlights

Two key highlights are observed in the Japanese impact investing market.

❶ New entry into the impact investing market by financial institutions

The research found that the number of players expanded widely in the impact investing market, including investment management companies and institutional investors, with one third being organizations that newly executed impact investing. An increasing number of financial institutions are expected to enter into the impact investing market in the future.
For example, Japan Impact Investment II Limited Partnership was established in Japan, in which, unlike Japan Impact Investment I operated solely by the Shinsei Bank Group, foundations other than the Shinsei Bank Group, financial institutions, industrial corporations, and educational corporations participate as joint GPs or LPs. Development Bank of Japan agreed to invest in the Bridges Social Outcomes Fund II which is managed by Bridges Fund Management Limited ("Bridges") in the UK, and entered into a business cooperation agreement to build a strategic partnership with Bridges. As these initiatives show, it is expected that knowledge will be accumulated by the financial institutions newly participated in the funds, leading to further expansion of impact investing activities.

❷ Development in impact investing in the policy making side

In the leaders' declaration of G20 Osaka Summit in 2019, it was mentioned that "other innovative financing mechanisms including blended finance can play an important role in upscaling collective efforts by each country", and Prime Minister Shinzo Abe declared in his speech that "Japan will lead the international discussion by examining ways to employ diversified and innovative financing schemes including social impact investing and utilizing dormant bank accounts for financing necessary to address global issues." The Regional Revitalization SDGs Financial Research and Study Group was established by the Cabinet Office to study and discuss how regional revitalization SDGs finance can solve regional social issues, and the discussion is under way on promoting the regional revitalization SDGs financial scheme. These political developments are also expected to lead to growth in and promotion of impact investing in the future.

The Current State of Impact Investing in Japan 2019

Introduction

About The Global Steering Group for Impact Investment (GSG) and the National Advisory Board

The Global Steering Group for Impact Investment (“GSG”) was established with the objective of globally promoting impact investing, based on the call by the then Prime Minister of the UK David Cameron at the G8 Summit (“Summit”) in June 2013. Formerly known as the G8 Social Impact Investment Task Force, GSG was rebranded in August 2015 when five additional member countries joined. Sir Ronald Cohen, the founder of the British dormant account fund called Big Society Capital, served as the chairman and had organized a series of meetings from 2013 to 2014, which culminated in the Task Force Report published in 2014. Since the rebranding in 2015, the GSG has met once a year at its annual conference while various working groups have congregated to tackle specific issues.

The GSG requires its member countries to form a national advisory board. Founded in 2014, Japan’s National Advisory Board (the former G8 Social Impact Investment Task Force National Advisory Board) is comprised of experts from various sectors throughout Japan where information is shared and discussion is underway actively on various issues regarding impact investing.

As of the end of December 2019, the GSG Japan National Advisory Board consists of the following members.

Chairman

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

Vice Chairman

- Masataka Uo — President and CEO, Japan Fundraising Association

Board members

- Shuichi Ohno — President, Sasakawa Peace Foundation
- Hiroshi Irie — Managing Executive Officer, Sumitomo Mitsui Banking Corporation
- Ken Shibusawa — Founder and Chairman, Commons Asset Management, Inc.
- Tomoya Shiraishi — CEO, Social Investment Partners
- Masataka Fukao — Chairman, Plus Social Investment
- Takehiro Fujimura — General Manager, Corporate Sustainability & CSR Department, Mitsubishi Corporation
- Hiroshi Mikitani — Representative Director, Japan Association of New Economy
- Hiroyuki Iijima — Managing Executive Officer, Mizuho Bank, Ltd.
- Junichi Yamada — Senior Vice President, Japan International Cooperation Agency (JICA)

The Secretariat of the GSG Japan National Advisory Board is comprised of Social Innovation and Investment Foundation, Asian Venture Philanthropy Network, K.K., Kazetotsubasa Co., Ltd., K-three Inc., and Japan Fundraising Association.

About this Report

This report is a report on impact investing in Japan that dates back to July 2014 when the first edition was published by the GSG National Advisory Board, titled "Current State of Social Impact Investment in Japan." Subsequent editions "Proposals for the Expansion of Social Impact Investment" (May 2015), "Current State of Social Impact Investment in Japan 2016" (September 2016), "Current State of Impact Investing in Japan 2017" (February 2018) and 2018 (March 2019) precede this report. The term "impact investing" is used in this report based on discussions at the GSG National Advisory Board, which is synonymous with "social impact investment" that was used until last year.

Chapter I, "Overview of Impact Investing" offers a glimpse of impact investing in the context of global trends, with a focus on its history and definitions, and Chapter II, "The Japanese Impact Investing Market" reports on the study of the impact investing market in Japan.
With regards to market size estimation in Japan, in addition to a questionnaire survey of practitioners in the impact investing market, interviews and in-depth research on publicly available reports and information were conducted to calculate market size.

This report was prepared under the supervision of the GSG National Advisory Board, with the support of K-three Inc. in research and writing. We would like to express our appreciation to all those who participated in the preparation of this report.

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CHAPTER I Overview of Impact Investing

❶ History and Current State of Impact Investing

According to the Global Impact Investing Network (GIIN),[1] impact investing is defined as investment that aims to create positive and measurable social and environmental impact while generating financial returns at the same time. The GIIN defines four core characteristics of i mpact investing, that is (1) intentionally contributing to positive social and environmental impact through investment alongside a financial return, (2) using evidence and impact data in investment design, (3) managing investment through understanding of impact performance, and (4) contributing to the growth of impact investing.[2]

Various needs among investors, investees, and intermediaries accelerate the steady expansion of the impact investing market, especially in Europe and North America.

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

❶-1 History and Background of Impact Investing

The term "impact investing" was first mentioned more than a decade ago in 2007 at a conference organized by the Rockefeller Foundation. Further back in history, in the Netherlands in 1968, a study group, which later developed into Triodos Bank, was formed to discuss the need for financial institutions that contribute to solve environmental and social issues. The eventual establishment of a foundation that provides funding to social enterprises in 1971[3] marked the beginning of impact investing in Europe. Subsequently, numerous financial institutions and cooperatives that focused on social finance, community finance, environmental finance, and so on emerged. In addition to Triodos Bank, some institutions developed from cooperatives such as the Co-operative Group in the UK and the GLS Community Bank in Germany. In this way, the origin of impact investing is observed in Europe and North America, and the history of impact investing in each country is reviewed as follows.

In the almost 50-year history of impact investing in Europe, a turning point was the establishment of the Social Investment Task Force in 2000 that was headed by Sir Ronald Cohen of the UK. As a result, new foundations, organizations and companies were formed, contributing to the expansion of impact investing activities, mainly in the UK. In the following years, several more milestones were achieved in the UK: in 2002, the establishment of Bridges Ventures, the first fund specialized in community investment, start of a social investment tax cut through the Community Development Financial Institutions (CDFIs), and the establishment of Charity Bank, followed by the launch of a new legal entity in 2004 called the Community Interest Company, for limited companies that are designated to

1 https://thegiin.org/
2 GIIN, https://thegiin.org/characteristics
3 Monitor Institute (2009) "Investing for Social & Environmental Impact"

use their assets and profits for the public good. In 2010, the first-ever social impact bond[4] ("SIB") was constituted by using one of the impact investment tools whereby the public and private sectors partner to fund projects in a pay-for-success financing model. Additionally, in 2012, Big Society Capital was founded as a fund of funds that provides financing to the impact investing market, using bank financing and funds from dormant bank accounts, and then in 2017, Barclays Capital became the very first major British bank to launch an impact investing fund called the Multi-Impact Growth Fund.

Around the same time, in the United States, the origin of impact investing was observed. In 1968, the Ford Foundation initiated Program-Related Investments (PRI). PRI is a scheme whereby foundations support social businesses through investment, loans, and other means by utilizing a part of their endowments. Some examples include low-interest student loans, social businesses that generate employment for the poor and affordable housing projects for low income classes. In 1994, with the introduction of the Riegle Community Development and Regulatory Act, Community Development Financial Institutions (CDFIs) helped activate more regional economies, and the PRI market size reached more than USD 3 billion in 2000. After the Rockefeller Foundation introduced the term "impact investing" in 2007, the financial crisis in 2008 underscored the need for new mechanisms which allowed investments to create healthier societies, which ushered in a new wave of financial institutions and foundations from the private sector. For example, there was an increased involvement in impact investing from the U.S. tech industry as illustrated by the Gates Foundation; and from the financial sector, Goldman Sachs' Social Impact Fund (2013) and Morgan Stanley's Impact Investment Services (2012). In 2011, the Rockefeller Foundation, the GIIN, and JP Morgan jointly published the first annual report titled "Impact Investing."[5] This trend is expanding outside of the financial sector; in recent years in the United States, Mark Zuckerberg, the founder of Facebook, announced a lifetime donation of 99% of his shares in Facebook stock (USD 45 billion) and launched the Chan Zuckerberg Initiative in 2015.[6] This was followed by the US buyout-fund TPG Growth establishing the Rise Fund with Bono of the rock band U2 in 2018, which raised USD 2 billion for impact investing.[7]

As a culmination of this trend, the Group of Eight (G8) industrialized nations decided to promote impact investing on a global scale at the UK Summit in 2013, and went on to launch the Global Steering Group for Impact Investing (GSG) in 2015. Chaired by Sir Ronald Cohen, the GSG currently has 21 nations[8] plus the EU as members, through which each government has implemented policies and promoted the growth of the market. These have led to the promotion of impact investing, as in 2018, "impact investing" was included in the leaders' declaration of G20 Buenos Aires Summit,[9] and in the leaders' declaration of G20 Osaka Summit in 2019, it was mentioned that "other innovative financing mechanisms including blended finance can play an important role in upscaling collective efforts by each country." Following the G20 Osaka Summit, the G7 ministers expressed support to promote impact investing in the G7 Paris Summit.[10]

4 Not a typical bond, SIBs are a combination of pay-for-success contract with the public sector and fundraising from third party investors
5 J.P. Morgan, the Rockefeller Foundation and the GIIN (2010) "Impact Investments"
6 The Guardian (2015) "Mark Zuckerberg and Priscilla Chan announce baby girl – and USD 45bn charity initiative"
7 World Economic Forum (2018) "The Rise Fund"
8 http://gsgii.org/
9 https://www.mofa.go.jp/mofaj/files/000424876.pdf
10 https://gsgii.org/2019/07/g7-ministers-issue-supportive-statement-on-impact-investment/

Figure 1 Chronological table of impact investing[11]

Overseas	Year	Japan
The Rockefeller Foundation used the term "impact investing" for the first time and started to promote impact investing	2007	
	2008	
The Global Impact Investing Network (GIIN), a global network of impact investors, was established **IRIS,** a reporting standard for impact investing, began operating	2009	
The world's first social impact bond was launched in the **UK** The **US** gave legal recognition to **Benefit Corporation,** as a category for social enterprises	2010	
	2011	
Big Society Capital, a social impact investment fund funded by dormant bank accounts, was established in the **UK**	2012	
Global Steering Group for Impact Investment (GSG) was established in the **UK** IBG8 Social Impact Investment Task Force	2013	
The world's first development impact bond was launched in **India**	2014	**GSG National Advisory Board** was established
	2015	GSG National Advisory Board proposed **7 key recommendations** towards promotion of impact investing The promotion of impact investing is mentioned for the first time in the **government's growth strategies and in basic policies for regional revitalization** The Government Pension Investment Fund (GPIF) signed the **UN Principles of Responsible Investment**
	2016	**Social impact management Initiative** was established **The Dormant Deposits Utilization Act** was enacted
TPG, a major private equity firm, established a JPY **200 billion** social impact investment fund	2017	**Japan's first social impact bond (SIB)** was launched
"Impact investing" was included in the leaders' declaration of **G20 Buenos Aires Summit**	2018	Social impact bonds were included in the agenda for the **PPP meeting of the Council on Investments for the Future**

11 http://www.siif.or.jp/wp-content/uploads/2019/07/SIIF_annual_report_2018.pdf

❶-2 Trends among Impact Investing Organizations

In addition to GSG, there are three representative organizations that aim to advocate impact investing globally, which are the GIIN, Impact Management Project (IMP), and SDGs Impact.

❶-2-1 Global Impact Investing Network (GIIN)

The Global Impact Investing Network (GIIN) was envisioned and created by a group of investors centered on the Rockefeller Foundation to activate impact investing. In terms of activation of impact investing, the GIIN pursues the creation of a global network for impact investors, and the implementation of a standardized social impact measurement index to evaluate social and environmental impact. Their initial project was the launch of an investment working group focused on sustainable agriculture in Sub-Saharan Africa.

The GIIN also created IRIS as catalog of metrics for impact investing, which has been updated for several years. In May 2019, the GIIN released the IRIS+ system, including the IRIS Catalog of Metrics as one component of the system, which is the generally accepted system for impact investors to measure, manage, and utilize their impact.[12]

"GIIN Investor Forum 2019" was held in Amsterdam in October 2019 where more than 1,200 people participated. In Japan, five organizations including the Social Innovation and Investment Foundation (SIIF) join as full members of the GIIN.

❶-2-2 The Impact Management Project (IMP)[13]

The Impact Management Project (IMP) is an initiative launched in 2016 led by Bridges Fund Management and others, involving over 2,000 organizations. This initiative led to the establishment of the IMP network in 2018, as a platform for corporations and investors to share knowledge, pursue opportunities for synergy and partnerships, and generate a common understanding on social impact measurement and management[14]. The IMP network is a collaboration of global organizations including the United Nations Development Programme (UNDP), the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD), Social Value International (SVI), the Global Reporting Initiative (GRI), the GIIN, the Principles for Responsible Investment (PRI), the World Benchmarking Alliance (WBA), and the GSG, which compose the core members, together with partner members. In Japan, K-three Inc. and the Social Innovation and Investment Foundation (SIIF) join as strategic partner members.[15]

❶-2-3 SDGs Impact[16]

SDGs Impact was founded in 2018 by the UNDP in cooperation with the IMP members. SDGs Impact provides standards and tools, and networking opportunities to enable effective investment for the Sustainable Development Goals (SDGs) adopted by the United Nations in 2016. The SDGs consist of 17 goals and 169 targets to achieve a sustainable world as set out in the 2030 Agenda for Sustainable Development adopted at the UN Summit in 2015. The agenda pledges "no one left behind" and the goals are unique in that they call for action by all countries including both developed and developing. It is estimated that USD 5 to 7 trillion is needed annually to achieve these goals.[17]

12 https://iris.thegiin.org/
13 https://impactmanagementproject.com/
14 Social Impact Measurement Initiative (2018) "Social Impact Management Guidelines Ver. 1"
15 K-three news release (2019)
16 https://sdgimpact.undp.org
17 UNDP (2017) "Impact investment to close the SDG funding gap"

❶-3 The Global Impact Investing Market Size

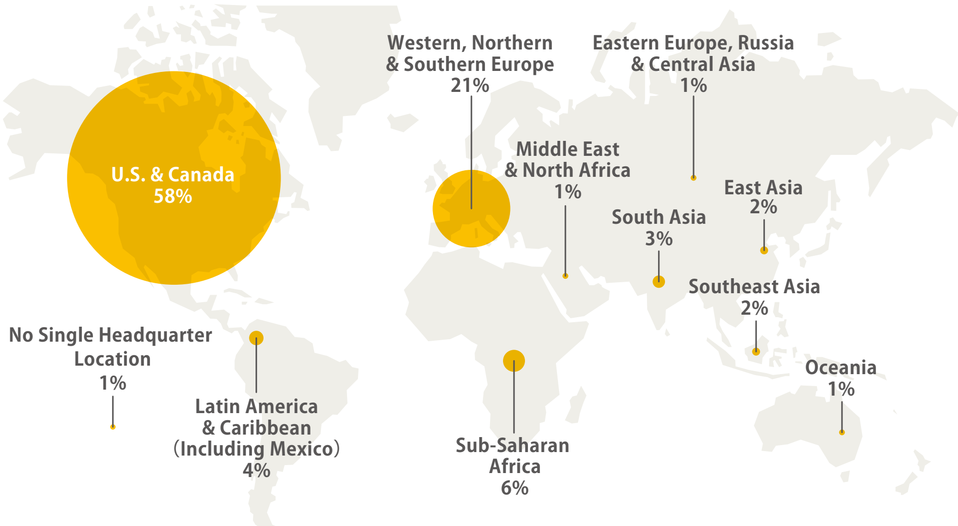
The GIIN's 2019 Annual Impact Investor Survey[18] shows that survey respondents manage USD 239 billion in investing assets globally. The GIIN estimates that the global impact investing market size including investing assets of impact investors who did not respond to the survey has reached USD 502 billion at the end of 2018.[19]

The GIIN forecasts strong future growth in the impact investing market in 2019. As survey respondents invested USD 33.1 billion in impact investing in 2018, those organizations are expected to invest roughly USD 37.3 billion in 2019, reflecting +13% projected growth in the volume of capital invested.

The GIIN survey shows that in 2018, the US and Canada accounted for 28% of total assets under management, while Latin America and Caribbean and Sub-Saharan Africa accounted for 14% each, and Europe accounted for 10%. Trends among five-year repeat from 2014 to 2018, respondents indicated the fastest growth in Middle East and North Africa (43%, CAGR), South Asia saw CAGR of 24%, Latin America and Caribbean at 21%, and East and South East Asia at 20%, showing expansion of areas in which respondents invested their capital.

Respondents overall indicated significant allocations to financial services (13% to microfinance and 11% to other financial services), energy (15%), and food & agriculture (10%). Trends among fire-year repeat from 2014 to 2018 indicated diversified sector allocations, as respondents grew their allocations to infrastructure at 61% per annum, water, sanitation and hygiene and ICT at 43% per annum each.

Figure 2 Organizations' headquarters location



n=1102; exclude organizations for which headquarters location was unknown

[18] GIIN (2019) "Annual Impact Investor Survey" https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%20Investor%20Survey_webfile.pdf

[19] GIIN (2019) "Sizing the Impact Investing Market" https://thegiin.org/research/publication/impinv-market-size

❷ History and Background of Impact Investing in Japan

The impact investing market in Japan also continues its growth trajectory. The balance of impact investing in Japan grew from JPY 71.8 billion in 2017 to JPY 317.9 billion in 2019.[20] An increase in Environmental, Social and Governance (ESG) investments, a demographic shift caused by an aging society and decline in birthrate, and the effect of natural disasters have played a significant role in the formation of the impact investing market in Japan. ESG investment is the practice of investing taking into account environmental, social and governance factors when making investment decisions. In 2018, ESG investments reached JPY 232 trillion, about 1.7 times greater than the previous year. Much like in the West, this growth is driven by events such as the heightened long-term risks of worldwide environmental degradation, the reorientation of the financial market against short-termism triggered by financial crisis, a series of major corporate scandals, and the growing interests towards business models that solve social and environmental issues.[21] Structurally, issues such as the increase in government spending on social security and medical insurance expenses due to aging demography, and the need for childcare services to support working mothers go beyond what the public resources that have supported the system in the past can cover. In relation to calamities, the Law to Promote Specified Nonprofit Activities (the NPO Law) was passed in 1998 following the Great Hanshin Earthquake of 1995. After the Great East Japan Earthquake of 2011, monetary donations from within and outside of Japan poured into the region, and in addition to direct donations and contributions, low-interest loans for nonprofits and companies addressing post-disaster recovery and subsidies were established during this time. Such activities have continued beyond emergency support, with several impact investing originating from those activities.[22]

Moreover, national and local governments are also considered to have partly contributed to the formation of the impact investing market. The enactment of the Dormant Accounts Utilization Bill in 2016 effectively started in 2019, with the selection of Organization Distributing Funds by Japan Network for Public Interest Activities (JANPIA) which was appointed[23] as the Designated Utilization Organization by the Cabinet Office. The country's first SIB projects backed by local governments came about in 2017 in Hachioji City and Kobe City, and in 2018, a wider regional collaboration model was implemented in Hiroshima Prefecture, and many more projects have been implemented, planned, or under consideration as of 2019.

20 GSG (2020) "The Current State of Impact Investing in Japan 2019)
21 Japan Sustainable Investment Forum (2018) "Fourth Sustainable Investment Survey in Japan"
22 GSG National Advisory Board (2016) "Current State of Social Impact Investment in Japan in 2016"
23 Cabinet Office (2019) "Appointment of the Dormant Utilization Organization based on the Act on Utilization of Dormant Deposits"

❷-1 Trend in Demand

Two key trends are seen among service providers (the demand side of funding) aiming at solving social issues.

First is the growth of social enterprises. While social enterprises have no legal specialized form in Japan, the cases listed here refer to organizations that address social issues regardless of their status as nonprofits or for-profit companies. According to the "report on the aggregated activity size of social enterprises in Japan" by the Cabinet Office in 2015, the size of social enterprise activities in Japan is estimated as follows.
Social enterprise here is defined as organizations that fulfill all of the following seven elements:

① Working to solve or improve social issues through for-profit activities
② Main business objective is social mission rather than profit
③ Profits are mainly re-invested into social project(s), not allocated to financial investments or to dividend payouts (in the case of for-profit organizations)
④ Less than 50% of profits are paid out to investors and shareholders (in the case of for-profit organizations)
⑤ Total revenues from social project(s) comprise more than 50% of the organization's total revenues
⑥ Less than 50% of revenues are derived from public insurance (medical, nursing care and so forth)
⑦ Less than 50% of the revenues (not including subsidies, membership fees and donations) are derived from government-commissioned projects

Figure 3 Overview of social enterprises in Japan[24]

Number of social enterprises	205,000
Total added value	JPY 16.0 trillion (3.3% of GDP)
Number of paid employees	5,776,000
Revenue on social businesses	JPY 10.4 trillion

The number of nonprofit organizations among social enterprises has also showed some increase compared to 2018. A recent trend shows that there has been a rise in nonprofits that earn business revenue in addition to donations or subsidies, and there is an increase in demand for supplying funding to nonprofits operated with earned revenue.

24 Cabinet Office (2015) "A report on the aggregated activity size of social enterprises in Japan"

Figure 4 Number of nonprofit entities[25・26]

Nonprofit organizations	51,428 (-342)
Certified nonprofit organizations	1,118 (+30)
Public-interest incorporated associations and foundations	9,719 (+88)
Cooperatives	43,299 (+375)
Social welfare organizations	21,186 (-520)
Educational corporations	8,142 (+15)

*Values in parentheses indicate changes from 2018[27]

A second emerging trend has been the increase of startups that have a mission of solving social issues while also indicating promises of high economic performance. Although those startups may not necessarily fulfill the seven criteria listed above, there has been a rise in cases where institutional investors and venture capitalists are executing impact investing in such startups with a mission of solving social issues.[28]

25 Cabinet Office (as of the end of October 2019) "NPO Statistics Information"
26 National Tax Agency (as of December 2019) "Corporate Number Publication Site"
27 GSG National Advisory Board (2019) "The Current State of Impact Investing in Japan 2018"
28 Shinsei Bank Group news release (2019) "Impact Investment in Life is Tech, Inc."

❷-2 Trends in Supply

In terms of supply side trends of impact investing, funding suppliers can mainly be categorized as corporations or individuals. In 2018, there was an increase in products geared toward individual investors, such as the Social Investment Declaration by Crowd Credit Inc.,[29] which provides loan-based crowdfunding services, and listed stock investment trust launched by Nomura Asset Management Co., Ltd.[30] From the organizational side, as their first investment from its impact investing fund to support women, Sasakawa Peace Foundation invested JPY 1 billion in a microfinance investment fund by Blue Orchard Finance SA of Switzerland in 2018,[31] and in 2019, in addition to Sasakawa Peace Foundation, Sumitomo Life Insurance Company which had invested in the fund since 2016, Japan International Cooperation Agency, and Japan Bank for International Cooperation made more investment in the fund upon request for a capital increase.

In 2019, Shinsei Impact Investment Limited invested by Shinsei Corporate Investment Limited of the Shinsei Bank Group and Japan Social Impact Investment Foundation (SIIF) established Japan Impact Investment II Limited Partnership, with Mizuho Bank, Ltd. In addition to the fund operating members, Shinsei Bank, Sumitomo Mitsui Trust Bank, Limited, The Bank of Yokohama, Ltd., educational corporations, and industrial corporations have invested in the Fund for its first closing.[32]

In addition, parties engaged in impact investing have expanded and partnership/collaboration has increased among them,[33] as evidenced by the fact that Development Bank of Japan agreed to invest in SIB managed by Bridges Fund Management Limited ("Bridges") in the UK, and entered into a business cooperation agreement to build a strategic partnership.

The Japanese government also took action to promote impact investing. In the G20 Osaka Summit in June, in addition to that promoting impact investing was mentioned in the leaders' declaration, as mentioned above, Prime Minister Shinzo Abe clearly declared in his speech that "Japan will lead the international discussion by examining ways to employ diversified and innovative financing schemes including social impact investing and utilizing dormant bank accounts for financing necessary to address global issues." In July, the first meeting of "Round Table Discussion of Advisory Panel to Discuss New Ways of Financing to Meet the SDGs" was held.

Other domestic moves which can lead to the expansion of impact investing include an attempt to connect the attainment of the SDGs to finance.

For example, the Regional Revitalization SDGs and ESG Financial Research and Study Group was established by the Cabinet Office to study and discuss how regional revitalization SDGs and ESG finance can solve regional issues. The regional governments are also taking actions in line with goals and targets of the SDGs, which is expected to lead to the future impact investing. Kanagawa Prefecture has implemented "SDGs Social Impact Evaluation and Demonstration Project" since 2018, which aims to connect conducting social impact measurement and management to investments and loans from the market including capital providers. In Shizuoka Prefecture, "SDGs x ESG Financial Liaison Committee" was established to promote loans and businesses which place emphasis on environment.

29 Crowd Credit news release (2018) "Crowd Credit made a public declaration to proactively invest in social enterprises around the world"
30 Nomura Asset Management news release (2018) "Nomura ACI Advanced Medical Impact Fund"
31 Sasakawa Peace Foundation news release (2018) "The Asia Women Impact Fund established by the Sasakawa Peace Foundation contributed JPY 1 billion as its first investment to the Blue Orchard Microfinance Fund SA"
32 https://www.shinseibank.com/corporate/news/pdf/pdf2019/190628_impact2_j.pdf, https://www.pref.kanagawa.jp/docs/bs5/documents/20191108siryou.pdf
33 https://www.dbj.jp/ja/topics/dbj_news/2019/html/20191120_79719.html

CHAPTER II The Japanese Impact Investing Market

❶ Estimating the Market Size

❶-1 Research Perspective

This research seeks to estimate the market size of impact investing in Japan to compare impact investing in Japan to the global survey, and to identify the challenges, possibilities and potentials towards the further growth of impact investing.

In addition to market size estimation, the survey also gathered information on respondents' level of interest in impact investing, the relationship between impact investing and the SDGs, and challenges in impact investing, etc.

❶-2 The Definition of Impact investing

The definition of impact investment in the 2019 survey is determined as follows, based on the discussion of the GSG National Advisory Board Working Group.[34]

Figure 5 Definition of Term of Impact Investing

Term	Definition
Impact	Inclusive of both short-term and long-term, social and environmental changes or effects as a result of specific projects or activities.
Social impact measurement	To understand impact through quantitative and qualitative approaches and make a value judgment of specific projects or activities.
Social impact management	Management which aims to enhance impact by incorporating social impact measurement into project management processes and making project improvements or decisions based on information obtained.
Impact investing	Investing behaviors which attempt to solve social and environmental issues while seeking financial returns. Measurements on impact including social impact measurement should be conducted before and after the investments. In this research, all forms of financial transactions that seek financial returns including equity and bond investment, loans, lease are considered investments. Donations, subsidies and grants are excluded.

Sources : Cabinet Office and the GSG National Advisory Board materials

34 Prior to the 2018 research, the term "social impact investment" was used; however, from this year's research, the term has been changed to "impact investing".

❷ Screening Process of Impact Investing Cases

❷-1 Approach to screening impact investing cases

In this report the criterion was defined for selecting impact investing cases as "investment behavior attempting to solve social and environmental issues while seeking economic returns, and social impact measurement is conducted before and after the investments."
Although emphasis was placed on how the investment behavior contributed to solving social and environmental issues, mere measurements or assessments for risk avoidance purposes did not qualify. Furthermore, if social impact was measured only either at the time investment decisions were made or after the investments were executed, such cases were excluded because they were not considered investments made with the intention of creating social impact and leading to subsequent improvements.

❷-2 Comparing against the 2018 Research Findings

In the 2018 research report, a criterion was set to objectively assess intention of impact investing: whether performance indicators were set which contribute to solving social and environmental issues in the investment decision making process and outcomes were evaluated. The major change from this year is that social impact measurement is required to be conducted not only before but also after the investments. Until the 2018 research, the condition for impact investing was that social impact measurement was conducted only before investments, in order for more investors to participate in the domestic impact investing market which was in the early days of impact investing. From this year's research; however, new criteria for impact investing are set as follows, based on the discussion at the GSG National Advisory Board Working Group, that is, social impact measurement must be conducted even after the investment. However, institutions conducting measurement after investments and measurement contents will not be questioned.
The reason for this change is that as it was becoming more common to conduct social impact measurement when executing impact investing with the expansion of impact investing, it was considered necessary to improve the quality of social impact measurement and social impact management in the future. For example, the GIIN has released the "State of Impact Measurement and Management" since 2017, in which the GIIN captures data from impact investors collected via questionnaire survey about how they measure, manage, and report their impact.[35] As improvement in the quality of social impact measurement and social impact management has been questioned overseas, in Japan, too, a change in criteria was made, taking into account the needs for requiring improvement in the quality as well as the quantitative expansion of impact investing.
Regarding measurement target (whether requiring the measurement of business outcome or accepting measurement of business output alone), no specific criteria were set in this year's research, unchanged from the previous year.[36] As there has been lack of concerted action among countries, these criteria will be reviewed continuously according to the maturity of the domestic

35 https://thegiin.org/assets/GIIN_State%20of%20Impact%20Measurement%20and%20Management%20Practice_Second%20Edition.pdf
36 Output: direct results including products and services produced by businesses or organizational activities.
(Examples) number of activities, term of activities, number of participants, etc. Outcome: changes or benefits brought about by output of businesses or initiatives.
(Examples) acquisition of business skills, changes in mental state (think positively), getting a job, etc.

market. Regarding negative impact verification,[37] although the need for negative impact verification is acknowledged, it was not required in this year's research. The case studies show cases in which negative impact verification was conducted.

Figure 6 Requirements of impact investing in this research

No.	Requirement	Mandatory / optional / not required
1	Social impact is measured at the time investment decisions are made	Mandatory
2	(Not only output but also) outcome is measured	Optional (It is desirable to conduct measurement)
3	(Not only positive impact but also) negative impact is measured	Optional (It is desirable to conduct measurement)
4	Social impact is measured after investments	Mandatory
5	Whether an institution conducting measurement is limited to either an investor or investee.	Not limited

❸ Research Scope for Market Estimation

This research initially compiled a list of research samples which included all institutions potentially related to impact investing in order to screen out impact investing cases of domestic financial institutions according to the assessment described in 2.1. Specifically, the list honed in on Japanese domestic investors that have made public statements such as signatories of Principles for Responsible Investment, Principles for Financial Action for the 21st Century, and others, and looked at a wide research sample as it did in 2018. The list is as follows.

Figure 7 Research sample

Selection criteria (some overlapping)	Type of organization	Number
● Signatory of Principles for Responsible Investment ● Signatory of Principles for Financial Action for the 21st Century ● Japan Sustainable Investment Forum survey participant ● Social Impact Measurement Initiative member ● Venture capital ● Securities ● Other relevant organization	Banks, credit unions and credit associations	164
	Insurance	25
	Securities	20
	Asset management firms (mainly listed companies)	44
	Private equity and venture capital	136
	Lease and non-bank institutions	58
	Other organizations	39
	Pension funds	7
	Listed companies	19
	Local governments	2
	Governmental financial institutions	9
	Total	523

37 Negative impact: negative social and environmental changes or effects as a result of businesses or activities. (Examples) working environment is proper or not, new environmental loads occur or not, whether or not there is an increase in equalities, standards for fair trade and procurement exists or not, whether or not there is conflict of interest in regional economies, etc.

❹ Market Size Estimation Findings

❹-1 Overview

To estimate the market size of impact investing, questionnaires were sent to selected organizations, and the responses were reviewed against the criteria outlined above to determine whether the case qualified as impact investing.

The questionnaires were mailed out on October 2, 2019, with a deadline to remit by December 23, 2019. Of the 523 organizations sampled, 52 organizations[38] (9.9%) responded. Of those 52, a total of 16 were acknowledged as impact investing cases.

Based on the survey using the questionnaire, an estimated investment balance of JPY 317.9 billion was allocated to impact investing in Japan.[39] Of those who responded to the questionnaire, 9 out of 11 organizations which had continued to reply the questionnaires since 2018 expanded their activities. The total cumulative investment balance of organizations which had continued to reply the questionnaires since 2018 increased to JPY 306.5 billion in 2019 from JPY 224.1 billion in 2018 (JPY 82.3 billion (37%) increase). The total cumulative investment balance calculated based on the same criteria as those of last year was JPY 407 billion. It should be noted that the amount is not exhaustive due to limitation on research methods of tabulating responses to questionnaire, and does not represent the market size in the strict sense.

The following table summarizes the impact investors who contributed to the estimated investment balance. 5 new entrants to the market were confirmed in 2019, and of those continuing from the 2018 survey, there were several organizations that increased their investment balances, including The Dai-ichi Life Insurance Company Limited and Shinsei Corporate Investment Limited.

38 Includes responses submitted past the deadline
39 Includes the balance of investments owned by companies and the balance of investment managed on behalf of clients and sales

Figure 8 Impact investors confirmed through the survey[40]

Type	Name of organization	Examples of impact investing
Governmental financial institutions	Japan International Cooperation Agency (JICA)	Investments and loans to overseas microfinance business and other projects including JAPAN ASEAN Women Empowerment Fund
Management firms	Asset Management One Co., Ltd.	Japan Equity Impact Investing
	Sumitomo Mitsui Trust Asset Management Co., Ltd.	Japanese equity SRI fund
	Kamakura Investment Management Co., Ltd.	Publicly Offered Investment Trust "Yui 2101" which invests in listed or unlisted companies
	Nomura Asset Management Co., Ltd.	Nomura ACI Advance Medical Impact Fund
Major banks	Mizuho Bank, Ltd.	Social Impact Bond for the promotion of colon cancer screening in Hiroshima Prefecture, and Japan Impact Investment II Limited Partnership
	Sumitomo Mitsui Banking Corporation	Social Impact Bond in Kobe City for prevention of severe diabetic nephropathy ("Kobe City SIB")
Insurance companies	The Dai-ichi Life Insurance Company, Limited	Investment in renewable energy, microfinance business in developing countries, extension of healthy life expectancy, employment creation, and startups which aim to solve social issues in the field of promoting a society with women's empowerment, etc., and impact investment in listed companies, PE Fund, and SIB
Venture capital firms	Shinsei Corporate Investment Limited	Japan Impact Investment I Limited Partnership and Japan Impact Investment II Limited Partnership
	Digisearch and Advertising, Inc.	Investment in Social Impact Bond for the promotion of colon cancer screening in Hachioji City, Angel Investment, and Share Fund
Foundations	The Social Innovation and Investment Foundation	Investment in SIBs (Kobe City, Hachioji City, Hiroshima Prefecture, etc.), healthcare tech startup with a social impact measurement system, impact investment intermediaries, direct investment in ADDress Co., Ltd., and investment in Japan Impact Investment II Limited Partnership
	Sasakawa Peace Foundation	Investment in Blue Orchard Micro Finance Fund and Japan ASEAN Women Empowerment Fund
Organizations specializing in impact investing	KIBOW Foundation	Investment in enterprises operating social businesses through the KIBOW Shakai Toshi Fund
	Plus Social Investment	SIBs (Saijo City, Higashiomi City, and Toyonaka City)
Other organizations	Hitachi Capital Corporation	Green Bond
	Nanto Lease Co., Ltd.	Nanto Regional Vitality Creation Support Investment Limited Partnership

40 In principle, the amount to be totaled is the amount purchased by investors, not amount issued by issuing entities. Investments by investors who responded to questionnaire are totaled as impact investing activities only when those investors are determined to meet criteria for impact investing including conducting social impact measurement before and after investments. When investments are made with the intention of executing impact investing and with social impact measurement by investors, the amount purchased is included in the impact investing activities, even though capital provision to the government is included in such amount. Regarding impact investing products for individual investors, as it is impossible to research on those investors' intentions, those products are totaled as impact investments which meet the criteria for impact investing when it is confirmed that intermediary financial institutions including management companies and securities companies have intended to create social impact or conducted impact measurement at the design stage and after the formation of the products (that is, before and after investments are made by investors). Normally, it is desirable that sufficient disclosure of the result of social impact measurement be made to individual investors. However, to date, standards for impact reporting to individual investors have not been established and they have been under development, disclosure to individual investors is not required.

When asked about number of impact investing, 60% reported they had executed 4-10 investments in the latest fiscal term, and half of them replied that they had executed more than 11 investments since establishment. This indicates that the impact investing market are steadily expanding in Japan. Impact investing are considered to be executed continuously as 25% of investors have cumulatively executed more than 31 impact investments since establishment.

Figure 9 Number of impact investing cases - latest fiscal term - (FA[41], n=10)

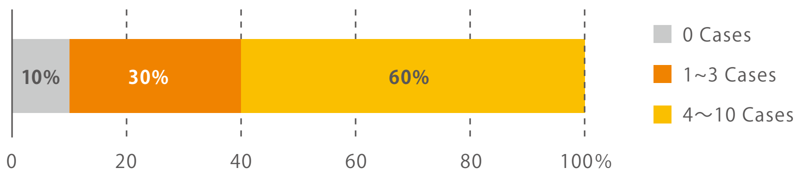
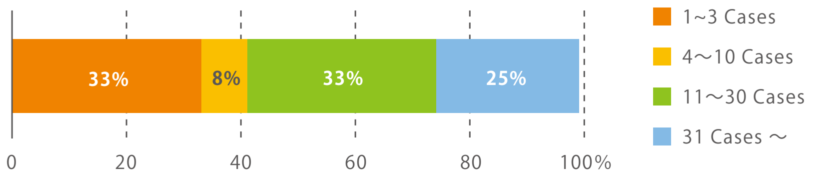


Figure 10 Number of impact investing cases - since establishment[42] - (FA, n=12)



41 FA stands for free answer where respondents can freely enter texts, words, and numbers.
42 The percentages are rounded off the 1st decimal place, so the total may not become 100%.

❹-2 Comparison of the current state of impact investing in Japan with the global market

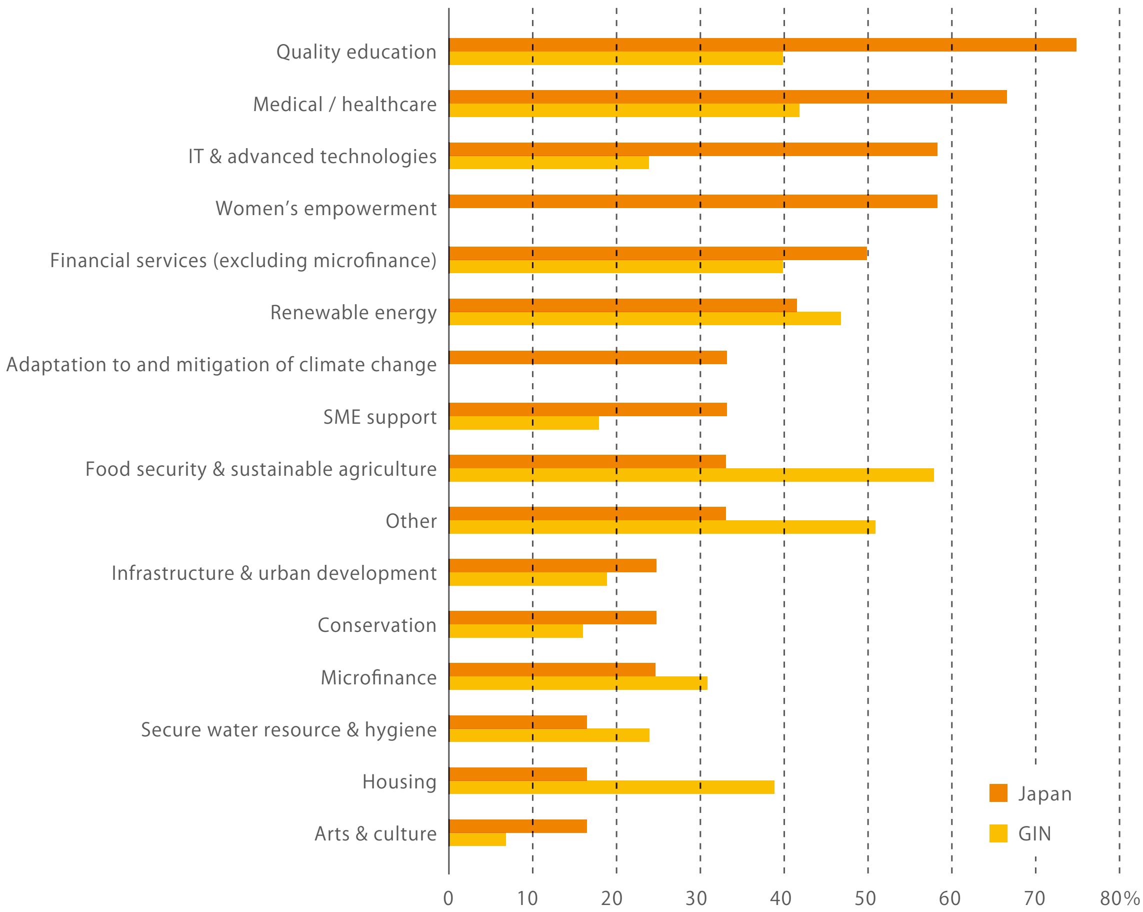
To better understand the state of impact investing in Japan, the survey compared the findings to those of the 2019 GIIN survey,[43] based on the following four criteria.

(1) Industry of targeted investment

Respondents in the Japanese survey allocated the most capital to education (75% of respondents), while food security & sustainable agriculture gathered the most capital in the global GIIN survey (58% of respondents). It can be surmised that expectations for advanced technologies as a means of solving social issues and education that develops the younger generation lead to the popularity of those sectors. Many respondents in both the Japanese and the global GIIN surveys allocated their capital in sectors such as medical/healthcare, financial services, and renewable energy, showing the worldwide popularity of those sectors as an investment target.

Two areas identified by the 2018 and 2019 Japanese survey, women's empowerment and climate action, have not been selected as investment sectors in the global GIIN survey; however, those areas are considered to increase their attractiveness as one of the leading investment targets in Japan.

Figure 11　Sector allocations (Number of respondents, MA[44], n=12)



* The GIIN survey allowed for multiple answers, n=266

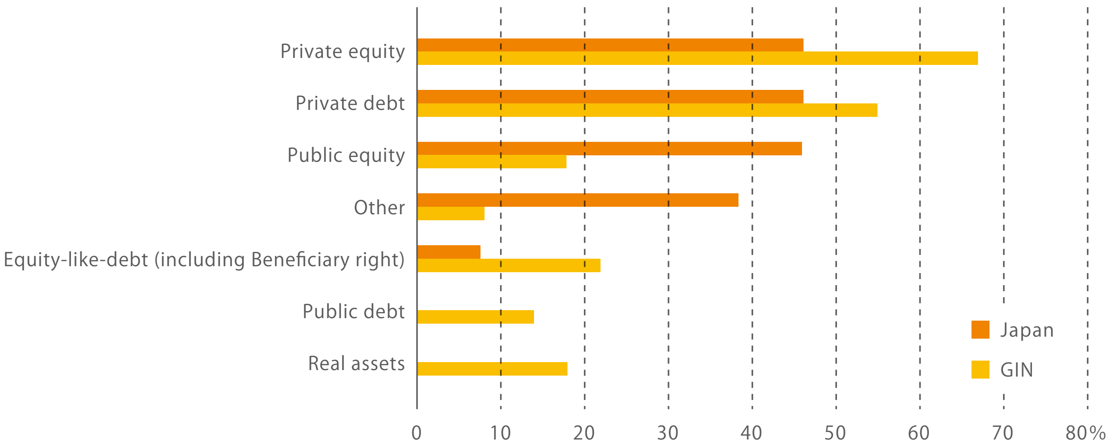
43 GIIN (2019) "ANNUAL IMPACT INVESTORSURVEY 2019"

44 MA stands for Multiple Answer. Respondents can choose one answer or more answers from multiple choices.

(2) Instrument of investment

In Japan, most investors chose public equity, private debt and private equity as the instrument of investment. The majority of investors in the global GIIN survey also chose private debt and private equity as the instrument of investment, indicating those two investment methods are widely used regardless of country or territory.

Figure 12 Instrument of investment (Number of respondents, MA, n=13)

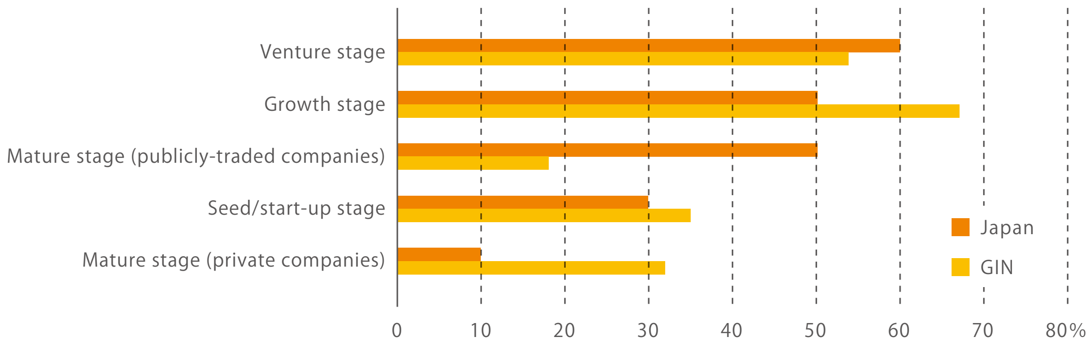


* The GIIN survey allowed for multiple answers, n=261

(3) Allocations by stage of business

When reviewing allocations by stage of business, the greatest share of funds in Japan was invested in venture, growth, and mature (publicly-traded companies) stage investees, and there is a tendency for more funds to be invested in mature (publicly-traded companies) stage investees compared to the global survey. On the other hand, the global GIIN survey shows that more share of funds was invested in seed/start-up and growth stage investees.

Figure 13 Allocation by stage of business (Number of respondents, MA, n=10)

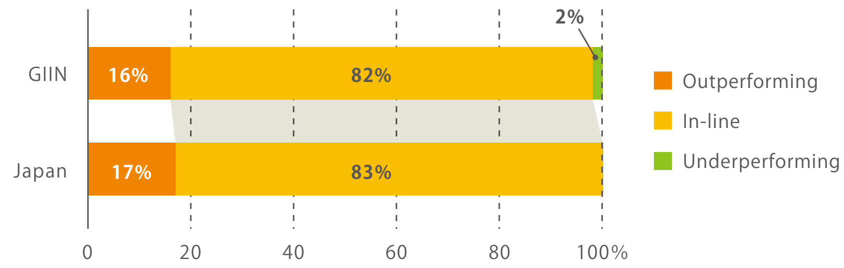


* The GIIN survey allowed for multiple answers, n=198

（4）Returns

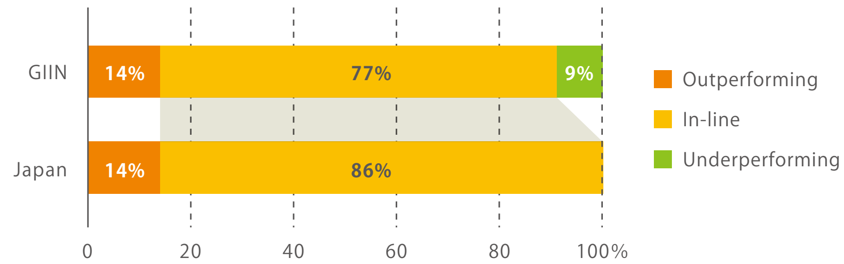
In a comparison of the Japanese survey and global survey in returns, the majority of respondents in both the Japanese and the global GIIN surveys indicated that their investments met both their financial and social performance expectations.

Figure 14　Financial performance (SA[45], n=6)



* GIIN survey: n=253, “not sure” responses excluded
* Japanese survey, “other” responses excluded

Figure 15　Impact performance[46] (SA, n=7)



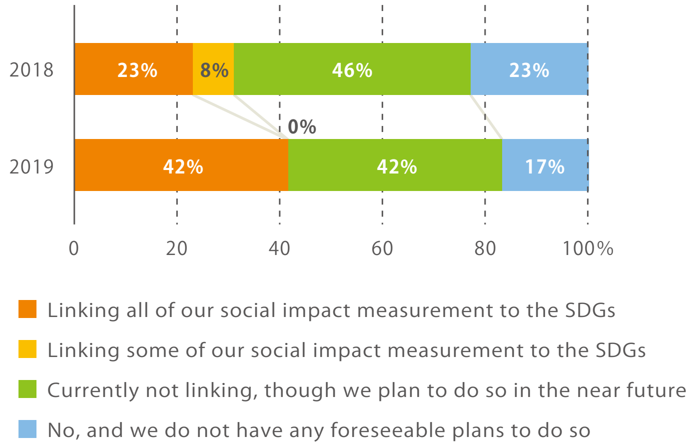
* GIIN survey: n=254, “not sure” responses excluded
* Japanese survey, “other” responses excluded

45 SA stands for single answer where respondents can choose one answer from multiple choices.
46 The percentages are rounded off the 1st decimal place, so the total may not become 100%.

❹-3 Linking impact investing performance to the SDGs

When asked whether impact investing was linked to the Sustainable Development Goals (SDGs), 42% replied yes, an increase from 31% last year. This trend of working on social impact measurement with linking it to the SDGs is expected to increase in the future.

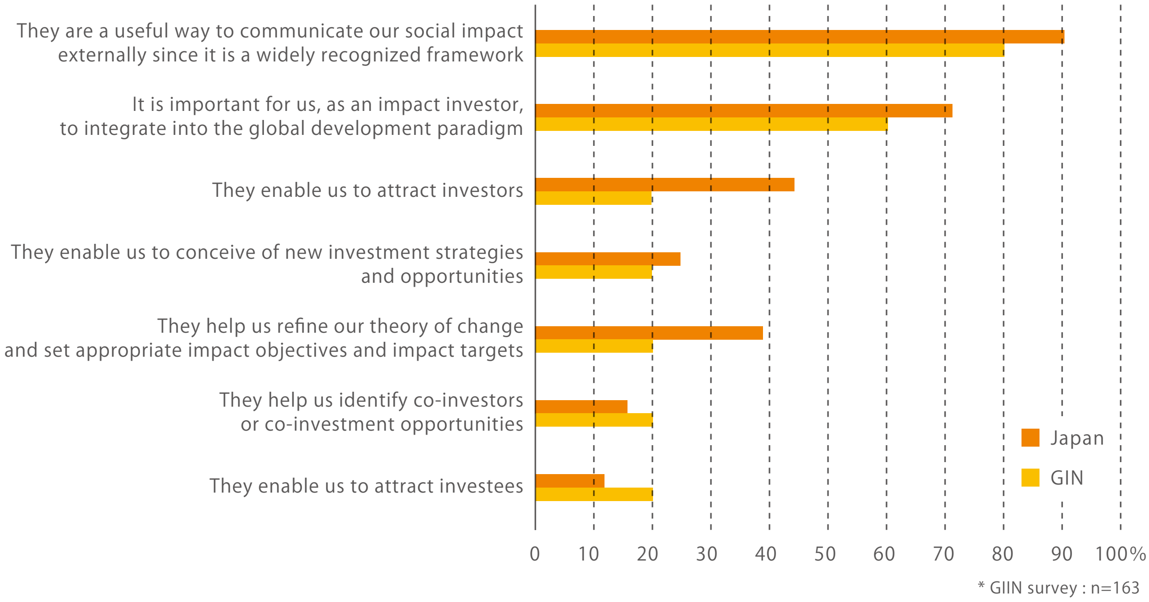
Figure 16 Linking social impact measurement to the SDGs[47] (SA, 2019: n=12, 2018: n=13)



Those who replied yes were then asked the reasons for linking their performance to the SDGs. The most common answer was "they are a useful way to communicate our social impact externally since it is a widely recognized framework" (80%), followed by "as an impact investor, it is important for us to integrate into the global development paradigm" (60%). This trend well conformed to the GIIN's survey result, indicating that the term SDGs is widely used as a tool for external communication or globally shared language. On the other hand, fewer respondents indicated that the SDGs help identify co-investors or attract investees, which explains that many regarded the SDGs as one relationship between investments and society rather than a means to directly create investment opportunities.

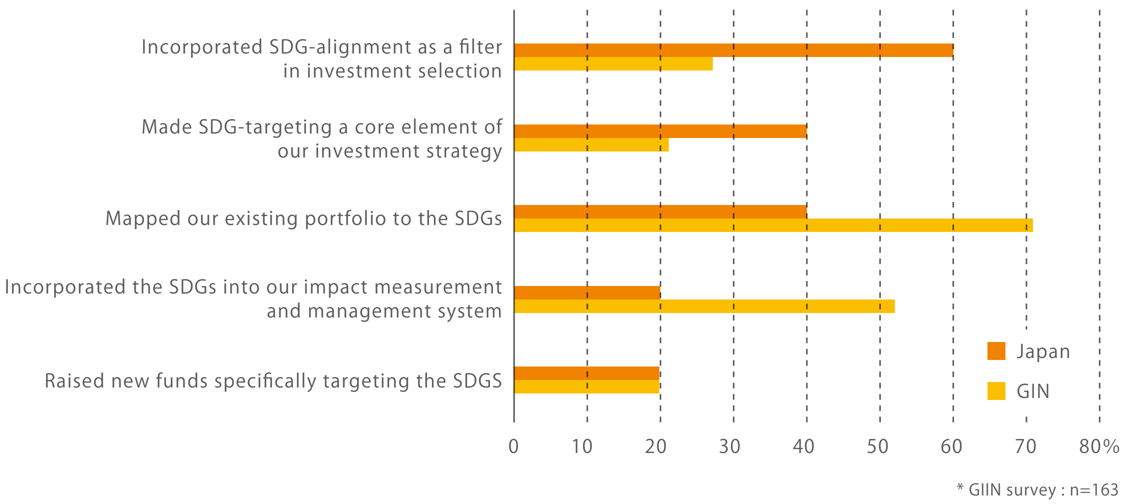
47 The percentages are rounded off the 1st decimal place, so the total may not become 100%.

Figure 17　Reasons for linking social impact measurement to the SDGs (MA, n=5)



Respondents were also asked to share how they have incorporated the SDGs into their impact investing practice. Many respondents have incorporated the SDG-alignment as a filter in investment selection or made SDG-targeting a core element of their investment strategy, which explained that they link the SDGs to their investment behaviors. On the other hand, the GIIN survey showed that the greatest share of respondents have mapped their existing portfolios to the SDGs or incorporated the SDGs into their management systems, indicating that the SDGs have been incorporated to see the whole picture of their investments.

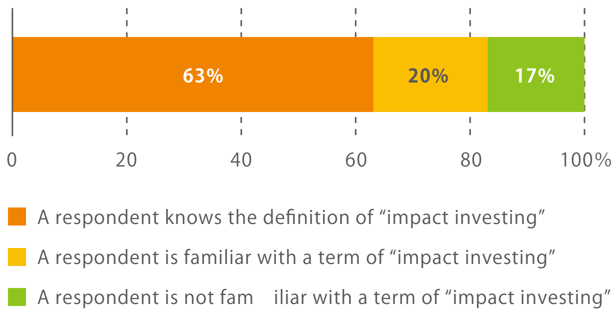
Figure 18　Ways to link SDGs to impact investing practice (MA, n=5)



❹-4 Awareness of impact investing

The survey also asked about the awareness of impact investing. When asked about familiarity with the term "impact investing", 63% responded that they knew the definition of the term. Combined with those who were familiar with the term, awareness among respondents reached 83%. Although it is possible that only respondents with awareness of impact investing participated in the survey, it can be surmised that most respondents were at least familiar with the term "impact investing" within the scope of this survey. In the survey conducted by the Social Innovation and Investment Foundation regarding awareness of impact investing, targeting general consumers, awareness among them was 6.8%.[48]

Figure 19　Awareness of the term "impact investing" (SA, n=41)



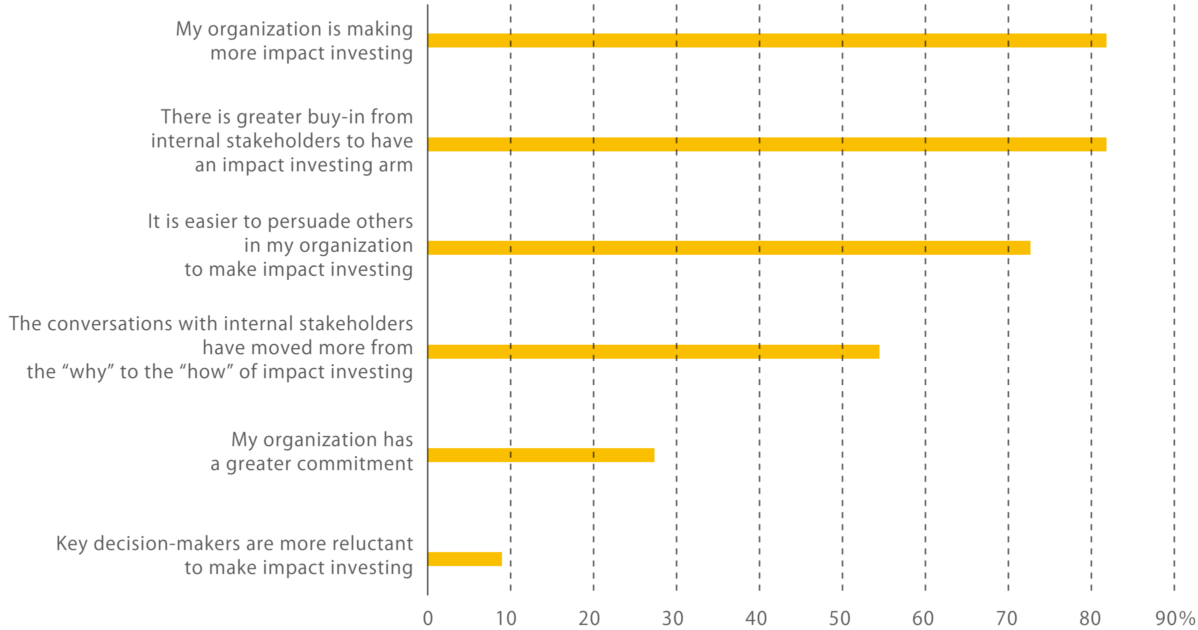
❹-5 Future plans for impact investing

The survey also asked about changes within the organizations that execute impact investing, future plans for impact investing, and conditions under which respondents would increase their impact investing.

When asked about internal changes, 82% responded that "there is greater buy-in from internal stakeholders to have an impact investing arm" and " the organization is making/planning more impact investing", and only 8% responded that "the organization's key decision-makers are more reluctant to make impact investing." It appears that within the organizations that execute impact investing, support for impact investing is increasing regardless of decision-makers or executors.

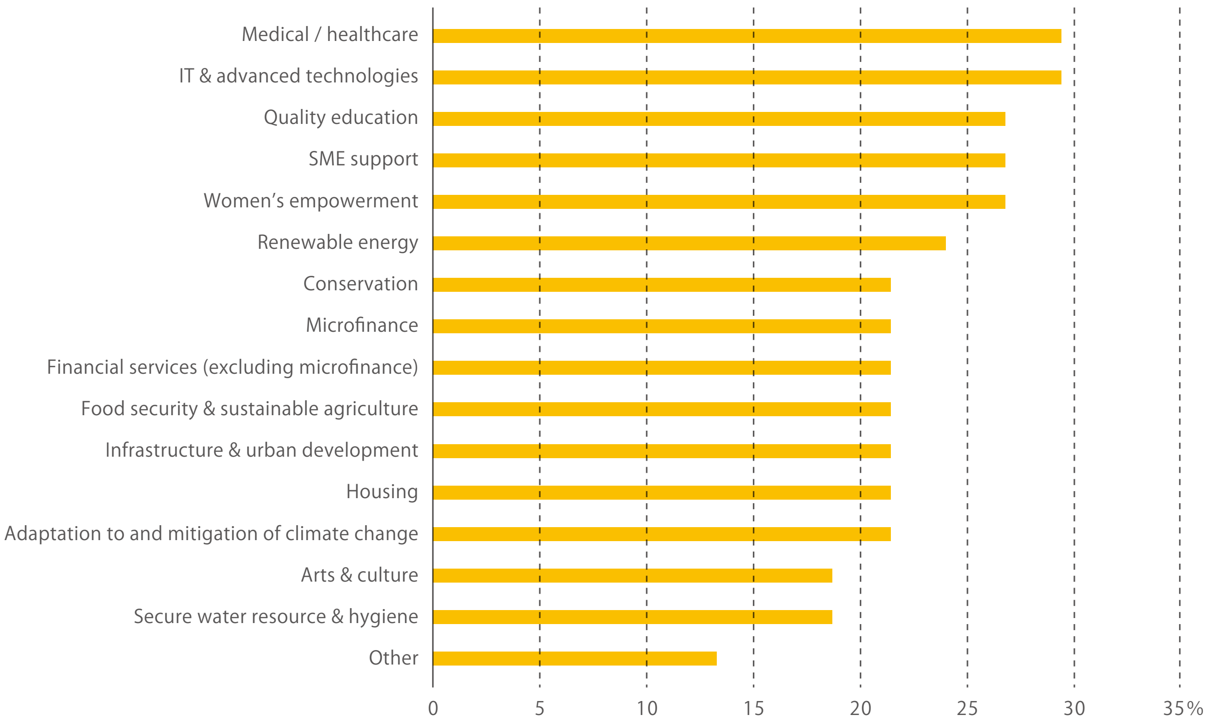
[48] https://prtimes.jp/main/html/rd/p/000000001.000049509.html

Figure 20 Changes in the organization from the year before (MA, n=11)



Regarding sectors where respondents planned to increase allocations in the future, 31% selected "IT & advanced technologies" and "medical/healthcare." "IT & advanced technologies" and "medical/healthcare" are the most popular sectors of impact investing in Japan, showing strong interest in those sectors.

Figure 21 Future plan for increased allocation by sector (MA, n=34)

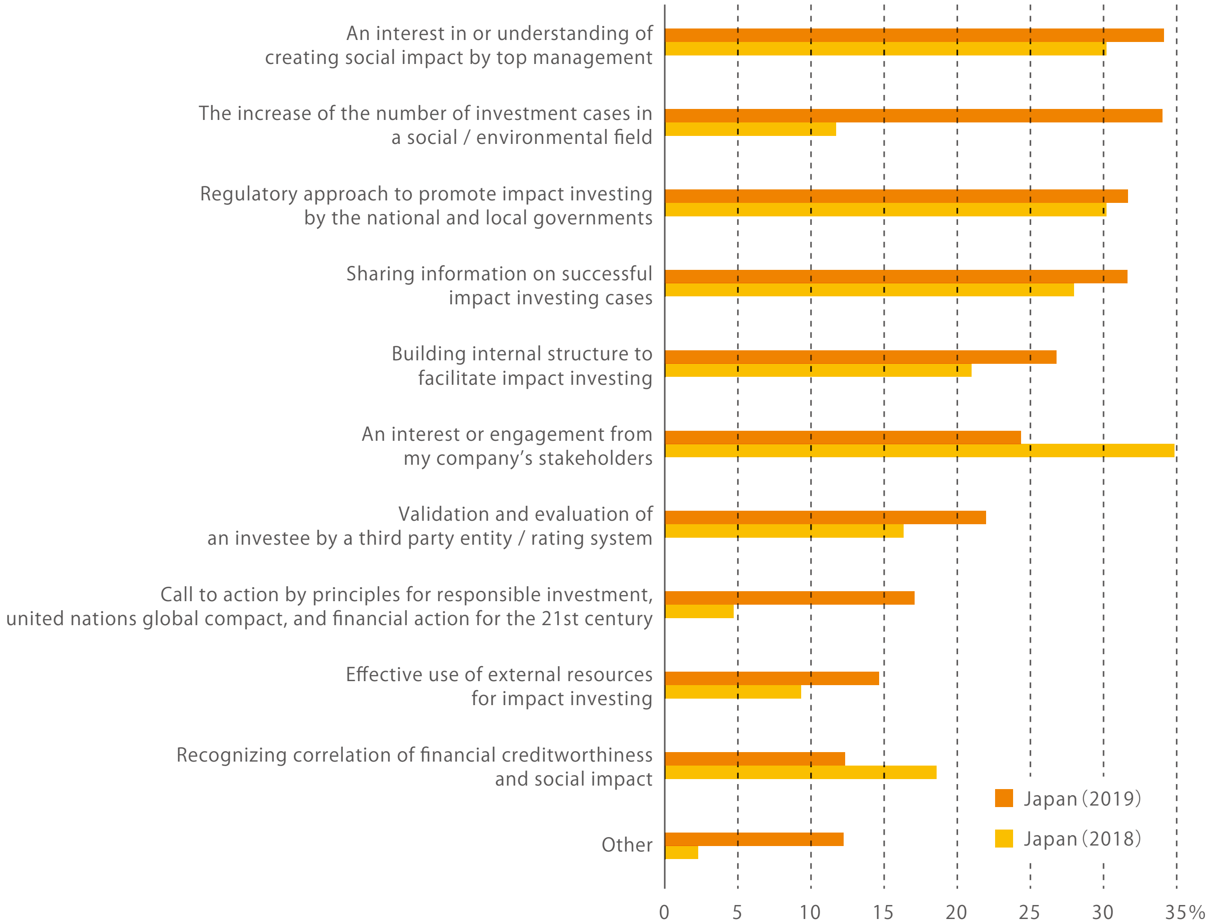


When asks what conditions would make increasing impact investing easier, the most popular reply was "the increase of the number of investment cases in a social/environmental field" and "an interest in or understanding of creating social impact by top management" (34%). The reply "the increase of the number of investment cases in a social/environmental field" increased significantly compared to the last year's survey, indicating an increasing interest in not only social impact itself but also social and environmental changes caused by the investments in connection with the SDGs, etc.

"Regulatory approach to promote impact investing by the government" and "sharing information on successful impact investing cases" were also considered to help to grow impact investing (32%), same level as the last year's survey.

In addition, as in last year, there were responses such as "changing internal structure to facilitate impact investing." If more impact investing cases are continued to be created and shared, and public awareness of impact investing instruments grows widely, impact investing can accelerate and expand.

Figure 22 Conditions to engage in more impact investing - 2019 vs 2018 survey findings[49] - (MA, n=41 (2019 survey), n=41 (2018 survey))

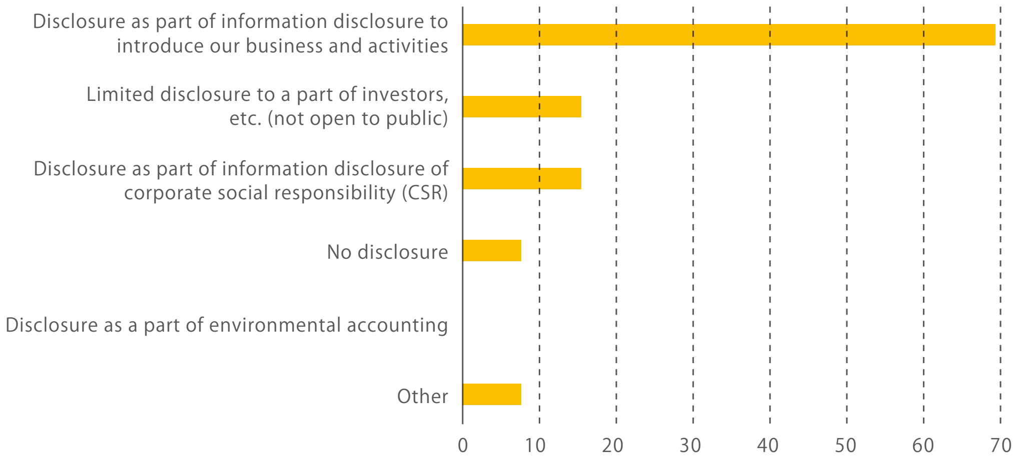


[49] GSG National Advisory Board (2019) "The Current State of Impact Investing in Japan 2018"

❹-6 Disclosure of impact investing

The survey also inquired on organizations' disclosure of their impact investing, to which 69% replied "disclosure as part of information disclosure to introduce our business and activities." In most cases, the media channels used for disclosure were companies' websites. Some organizations had dedicated pages for social impact investing set aside on their websites, while others disclosed their impact investing in their investment reports or annual reports.

Figure 23 Information disclosure (MA, n=13)



In addition, of the comments received, there were occasional comments on demand growth, such as "there is an increase in the exposure of terms like SDGs, PRI, and ESG investments, and the ground is fertile for impact investing," and "there is high demand from investors (for impact investing)." On the other hand, there were also comments as to the challenges in impact investing such as "finding and selecting portfolio companies is our bottleneck," "the need for more cases," and "the need for an established global method of social impact measurement."

❺ Case Studies

Three case studies in the table below have been selected from the aforementioned players in the impact investing market to represent recent shifts in the market.

Figure 24　Case studies and reason for selection

No.	Case study	Sector	Reason for selection
❺-1	Investment in AsMama, Inc. by Japan Venture philanthropy Fund (JVPF)	Support for child-care and women's empowerment	● Selected as a case in which the recovery of invested fund has been completed with the end of the support period
❺-2	Investment in Gojo and Company, Inc. by Japan International Cooperation Agency (JICA)	Financial business focusing on Micro finance	● Selected as a case in which an investee was assessed to have taken measures to minimize negative impact when discussing investment
❺-3	Establishment of Japan Impact Investment II Limited Partnership by Shinsei Corporate Investment Limited	Childcare, nursing care, and new work style-related business	● The newest impact investing case in Japan ● Selected as a case which gives an insight into broadening investor base, as limited partners participated in the fund compared to Japan Impact Investment I Limited Partnership funded solely by the Shinsei Bank Group's capital

❺-1 Investment in AsMama, Inc. by Japan Venture Philanthropy Fund (JVPF)[50]

This case study takes a closer look at investment in AsMama, Inc. by Japan Venture Philanthropy Fund (JVPF), a case in which JVPF had executed impact investing with financing method that finds few cases in Japan and completed the recovery of invested fund.

❺-1-1 Investment overview

Figure 25　Investment Overview

Fund name	Investment in AsMama, Inc. by Japan Venture philanthropy Fund ("JVPF")
Period of fund	August 2015 to August 2019 (4 years)
Fund size	Totaling JPY 30 million
Investor	Japan Venture Philanthropy Fund ("JVPF")
Fund management company	Social Investment Partners ("SIP") The Nippon Foundation
Investee	AsMama, Inc.
Additional stakeholders	<Pro bono partners> Bain & Company, Inc. Clifford Chance Law Office
Expected social impact	Creating a society where local residents can support each other in a safe and comfortable network of peers by providing "Kosodate Share"
Highlights	Utilizing a price fluctuating convertible bonds structure to realize both scale and returns of impact investing

50 http://jvpf.jp/wp-content/uploads/2019/12/JVPF%E5%8D%94%E5%83%8D%E6%88%90%E6%9E%9C%E3%83%AC%E3%83%9B%E3%82%9A%E3%83%BC%E3%83%88AsMama%E7%B7%A8.pdf

❺-1-2 Fund details

(1) Investor (Fund manager)

【 Japan Venture Philanthropy Fund 】

① Established (year) | 2013

② Total amount of fund | JPY 840 million (as of March 2019)

③ Mission |

- To foster and support social enterprises by providing mid- and long-term financial support and management support which utilizes business skills to bring solutions to Japan's social issues through the sustainable growth of those enterprises.
- To promote and establish the culture of venture philanthropy[51] in Japan through activities of the Fund.

④ Main activities |

Japan's first full-scale venture philanthropy initiative jointly established and managed by Social Investment Partners ("SIP") and the Nippon Foundation. The JVPF provides financial and management support in the form of subsidies, and investments and loans to organizations and enterprises operating social businesses in the 3 fields of education & young career support, regional revitalization & community building, and childcare & women's social participation to expand social impact.

(2) Investee

【 AsMama, Inc. 】

① Established | November 4, 2009

② Capital | JPY 7 million

③ Mission |

Solving social issues related to childcare and maximize social impact by providing social platform which matches and assists regional social needs.

④ Main activities |

With the objective of creating a society where people can rely on and support each other by connecting people to people and people to community, AsMama establishes a social platform to provide people of child-caring age with opportunities to meet and support each other, and provides the "Kosodate Share" apps in which people can assist each other in a timely manner, in a safe, secure, and unconstrained environment. AsMama-certified "Mama Supporters" across Japan offer child-care support in their local communities, and help build local community through exchange events and public relation activities to create a "real" relationship where people of child-caring age can support each other. AsMama has strengthened collaboration with local governments and corporations to revitalize local communities, and operates the child-care sharing services for as little as JPY 500 per hour backed by revenues derived from outsourcing services to local governments and consulting services to corporations.

[51] Venture philanthropy : A model which aims to promote business growth and accelerate solutions to social issues by cultivating high-potential NPOs and social enterprises with mid- and long-term financial and management support

(3) Fund scheme

① Background

AsMama, which marked its 5th anniversary, had expanded its regional exchange business and completed the development of the "Kosodate Share" apps. The company had an intention to strengthen its business foundation and raise more funds for future business expansion, and was selected as a support recipient by the JVPF in August 2015. The JVPF spent about 4 months for examination of support: the mid-term business plan was formulated with the support of SIP, a roadmap was created to achieve the plan, and management issues were identified. Then after discussions in the JVPF selection committee, the conditions were formulated for both financial and management support, and the support was finally decided. Supporting period was 4 years. During the period, a director was sent out from SIP to provide management consultation with a high frequency while management support was provided by Bain & Company, Inc. and Clifford Chance Law Office, pro bono partners of SIP, based on priority of management issues. During the support period, AsMama was able to develop the organizational base while creating a profit model which is balanced with social impact. In August 2019, the company redeemed all of the grant, and the support was completed.

② Investment overview and support conditions

Financial support provided to AsMama, Inc. by the JVPF was as follows.

Figure 26 Overview and conditions of financial support

Total funding amount	JPY 30 million
Method of investment	Unsecured convertible bond-type bonds with stock acquisition rights[52]
Corporate debenture's coupon rate	None
Collateral security	None
Repayment terms	August 31, 2018 (later changed to the end of August 2019)
Exercise conditions	Either of the following conditions is met ● Equity financing of more than JPY 30 million is made (reference transaction[53]) ● No reference transaction occurs before the expiration date[54]
Conversion price	● When there is a reference transaction, the amount calculated by multiplying reference transaction price by conversion rate (70-90%) ● When there is no reference transaction, the amount agreed by both parties. If no agreement is reached, the amount that refers to net asset value
Key reason for acceleration	● When a bond holder reasonably determines that sociality has been lost ● Repayment of debt is not made on time ● Default or violation of representations and warranties occurs ● When there is a change in control
Support conditions	● Obligation to report important matters (business plans, financial statements) ● Restrictions on important matters ● Obligation to report on business activities monthly and make financial reports ● Development of the board system, dispatch of a director from SIP, and participation of an observer ● Continuation of business with social mission

Sources : Japan Venture Philanthropy Fund "Report on collaboration outcome, December 2019"

52 A type of corporate debentures issued by a company that can be converted to stock at conversion price.
53 Transaction referenced to determine price per share when the conversion from the bond to stock is made.
54 The expiration date of the period during which stock acquisition rights can be exercised.

③ Stakeholders

The implementation mechanism and role of each stakeholder are as follows.

Normally, SIP, which manages the JVPF, plans and leads management support and provides support in collaboration with pro bono partners as necessary. In this project, SIP took a leading role in providing management support while Clifford Chance Law Office and Bain & Company, Inc. participated as pro bono partners.

Figure 27　Stakeholders and their roles

Name	Roles in the project
AsMama, Inc.	Entity
Japan Venture Philanthropy Fund	Providing financial support
Social Investment Partners	Management of the JVPF, comprehensive management support, and monitoring
Clifford Chance Law Office	Management support (organizing internal rules, allocating operational duties, and organizing authorities)
Bain & Company, Inc.	Management support (identifying business areas and providing planning support)

④ Approach to social impact

The JVPF sets social impact of business it supports by utilizing a logic model in collaboration with top management of potential investee at the business planning stage. Since social impact is considered to be mid- and long-term results, the JVPF separately sets KPIs for output linked to the specified social impact, on which monitoring is performed monthly, quarterly and annually, and resets the KPIs whenever necessary based on the review of the business plan. The setting of social impact and the KPIs linked to that impact are tailored per investment. The KPIs in this project include the number of registered users of “Kosodate Share”, the number of certified “Mama Supporters”, the number of actual childcare sharing services, users’ satisfaction level, and the number of staff as an organizational base.

In this project, support for (1) reviewing core value of business, (2) planning strategies, and (3) strengthening organizational base was provided through the KPIs linked to the social impact and social impact management, as efforts necessary for AsMama, Inc. to continuously create social impact.

Additional support provided to AsMama, Inc. at the same time to create social impact included meetings with a director sent out from SIP on a regular basis and weekly meeting to redesign business plans and establish organizational structure.

(4) Key takeaways

① Possibility of balancing financial returns with social returns by financing that utilizes unsecured convertible bond-type bonds with stock acquisition rights

The most striking feature of this project in the context of impact investing is that it was funded utilizing investment techniques used in venture capital or private equity investments as a means of financing to achieve financial exit while creating social impact. The investment scheme of this project is characterized by (1) utilization of convertible bonds, (2) convertible bonds whose conversion price will be determined based on future market price, (3) that in case convertible bonds are not converted into stocks in the period during which stock acquisition rights can be exercised, the principal can be recovered by redemption of bonds, and (4) that the mission lock clause is added to the redemption clause for the purpose of emphasizing sociality of corporations or businesses. In this project, considering that the investee is a venture-stage company, convertible bonds with fluctuating conversion price are used, that is, the stock price of the investee is not evaluated at the time of providing support, but conversion price will be determined based on the future market value when the market value becomes available. The advantage of using this type of convertible bonds is that since the stock price is not evaluated at the time of providing support, there will be no effect on the stock price even when the investee attempts to raise funds by means of equity financing after receiving support, as such the degree of freedom of management of the investee can be ensured. In addition, financing in the form of convertible bonds ensures financial returns. In the case where the convertible bonds are not converted into stocks, the principal can be recovered by redeeming bonds in so far as the company is able to build a profit model. On the other hand, by adding the mission lock clause to the redemption clause, pursuit of sociality of continuing social mission will be guaranteed against the situation where the company's management does not attach importance to sociality due to an increase in the number of stakeholders as a result of equity financing after receiving support.

As the JVPF is a fund funded by donation, financial returns generated by this project are not returned to donors who supply the capital but utilized to finance new support recipients. AsMama agreed with the concept of the JVPF's flow of funds, and upon completion of receiving support, the company became a supporter of the JVPF, making a donation to the JVPF in addition to funds for redemption. This project will be an important example of executing impact investing utilizing investment techniques for startup or venture-stage companies in venture capital investments.

② Development and expansion of social businesses by accompanying support

The JVPF puts emphasis on accompanying support in order for social businesses with various management challenges to achieve healthy growth. The JVPF's support went beyond simply providing capital. It provided comprehensive management support including (1) review of core value of business, (2) strengthening organizational base, and (3) redesign of business strategies after sharing management objectives of maximizing specific social impact with the support recipient. Those efforts resulted in increases in the number of registered users of "Kosodate Share", certified "Mama Supporters" and childcare sharing services, and improved level of user satisfaction. The background factor which enabled the provision of such accompanying support is that the JVPF is jointly managed by the Nippon Foundation, an organization that has in-depth knowledge of social business support, and SIP, an expert in the field of venture capital investment and corporate management.

❺-2 Investment in Gojo and Company, Inc. by Japan International Cooperation Agency (JICA)—

This case study analyzes Japan International Cooperation Agency (JICA)'s investment in Gojo and Company, Inc.

❺-2-1 Investment overview

Figure 28 Investment Overview

Fund name	Investment in Gojo and Company, Inc.
Period of fund	August 22, 2019
Fund size	JPY 1 billion
Investors	Japan International Cooperation Agency ("JICA")
Investee	Gojo and Company, Inc.
Expected social impact	Improving access to finance and standard of living for low income classes, and helping women's empowerment in developing regions
Highlights	When discussing investment, JICA assessed that Gojo and Company, an investee, had taken measures to minimize negative social impact

❺-2-2 Fund details

(1) Investors

【 Japan International Cooperation Agency 】

① Established (year) | 2003

② Capital | JPY 8,145.9 billion (as of the end of March 2019)

③ Main activities |

JICA is an incorporated administrative agency in charge of administering Japan's Official Development Assistance (ODA), whose objectives are promoting international cooperation and contributing to healthy socioeconomic development in Japan and other countries through supporting socioeconomic development, reconstruction, and economic stabilization in developing regions, etc. JICA also provides support through various types of assistance methods including technical cooperation, ODA loans (yen loans, foreign loans and investments) grants to developing countries while dispatching Japan Overseas Cooperation Volunteers, Senior Japan Overseas Cooperation Volunteers, and Japan Disaster Relief Teams, etc.

(2) Investee

【 Gojo and Company, Inc. 】

① Established (year) | 2014

② Capital | JPY 7.09 billion (as of August 2019)

③ Main activities |

With a mission of providing financial access to everyone in the world as the private sector World Bank, Gojo and Company, Inc. delivers microfinance in developing countries.

(3) Fund scheme

① Background

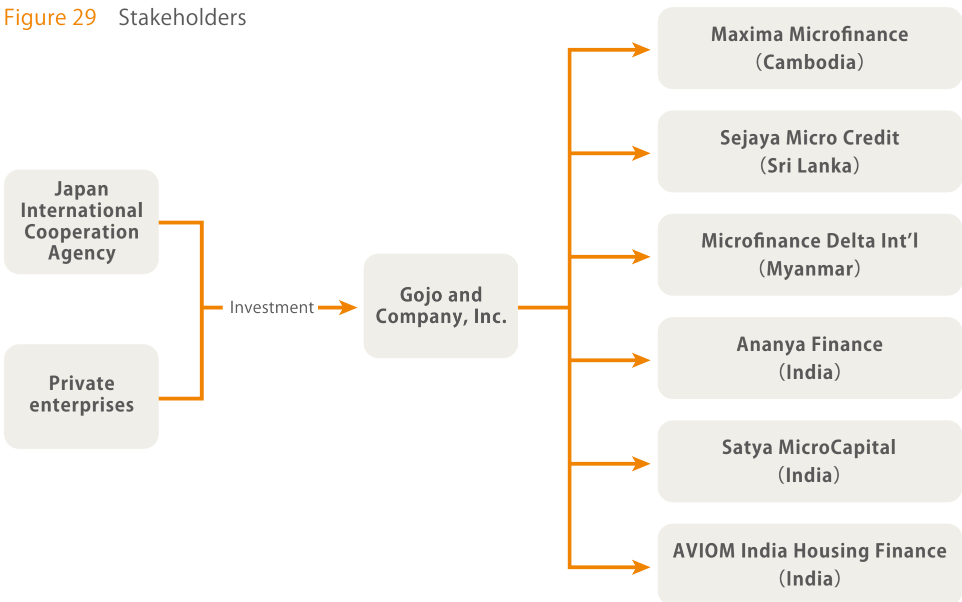
Established in July 2014 with a mission of providing financial access throughout the world as the private sector World Bank, Gojo and Company has delivered financial services, with a particular emphasis on microfinance, targeting people who are not provided with financial services in developing regions. To date, the company has provided multiple financial products with over 400,000 clients in India, Cambodia, Sri Lanka, and Myanmar (more than JPY 20 billion), and aims to provide 100 million people in 50 countries with quality and affordable financial services by 2030.

There are 1.7 billion adults in the world who do not have accounts in financial institutions[55], thus improving financial access is an urgent issue in developing regions. More than half of those adults who do not have accounts in financial institutions are women, indicating that a gender gap is expanding in developing regions. The SDGs also aim to "ensure access to financial services, including microfinance" (Goal 1) and "improve access to financial services" (Goal 8). Under those circumstances, JICA decided to invest in Gojo and Company, Inc., which is delivering financial services with a particular emphasis on microfinance in developing regions, and help expand Gojo's business, to help improve access to finance among low-income classes, raise the standard of living, and promote women's empowerment.

② Stakeholders

Japan International Cooperation Agency invested in Gojo and Company that delivers microfinance through its local subsidiaries and affiliates in developing countries, by utilizing the framework of overseas investments and loans.

Figure 29 Stakeholders



[55] The Global Findex database 2017

(4) Process of investment discussion

In this project, JICA utilized an overseas investments and loans scheme to invest in Gojo and Company, Inc. Procedures required for the examination, etc. of overseas investments and loans projects are roughly divided into three stages - pre-examination stage, examination stage, and post-examination stage.

In the pre-examination stage, an initial discussion is conducted on quantitative and qualitative development effects, financial risks, and significance of efforts before examination policies are determined, then investments and loans are examined in accordance with those policies.

JICA identifies items requiring quantitative and qualitative checks in the examination stage, and set up those items in consultation with Gojo and Company. In this project, quantitative development effects were set such as proportion of women in borrowers (the extent to which loans were directed to female clients, and the extent to which the proportion of female clients is expected to be maintained in the future), and the number of people whose access to financial services is improved. In addition, JICA valued the fact that Gojo and Company had worked on minimizing negative social impact created by its business with the thoroughgoing customer first principles, and decided on the investment.

Specifically, in the examination stage, it was highly valued that Gojo and Company had taken measures not to run into multiple debts and worked on improving the financial literacy of borrowers. JICA also valued that Gojo and Company had an in-house social performance manager, had formulated a group governance policy, and had advised all group companies to obtain Client Protection Principles certification as soon as possible.

(5) Key takeaways

① When discussing investment, the investee company's efforts to minimize negative social impact are evaluated |

This project is characterized by that the investee company's efforts to minimize negative social impact created by its business are evaluated in the examination stage. Social impact created by impact investing includes positive as well as negative impact. In measuring social impact of impact investing, it is desirable to make sure that negative social impact is not created while confirming positive impact by the investments and loans executed. However, some negative social impact measurement may find it difficult to locate or measure a causal relationship between negative social impact and investments and loans. In such cases, this project may provide one solution in that qualitative measurement is conducted regarding whether investees' policies, systems, and structures have been developed and discussed in order not to create any negative social impact.

❺-3 Establishment of Japan Impact Investment II Limited Partnership by Shinsei Impact Investment Limited invested by Shinsei Corporate Investment Limited, with Social Innovation and Investment Foundation and Mizuho Bank, Ltd

This case study analyzes the establishment of Japan Impact investment II Limited Partnership by Shinsei Impact Investment Limited. It should be noted that the GSG National Advisory Board has no intention to recommend that anyone invest in the Fund, and shall not be liable for its investment process and/or outcome.

❺-3-1 Overview

Figure 30 Summary of the Fund

Fund name	Japan Impact Investment II Limited Partnership
Establishment date	June 28, 2019
Fund size	JPY 2.6 billion (as of December 2019)
Investors	GP (General Partner) : Japan Impact Investment II Limited Partnership LP (Limited Partner) : Shinsei Bank, Limited, Mizuho Bank, Ltd., Social Innovation and Investment Foundation (SIIF), Sumitomo Mitsui Trust Bank, Limited, and others
Fund managers	Shinsei Impact Investment Limited Social Innovation and Investment Foundation (SIIF) (Mizuho Bank, Ltd. as adviser)
Terms	Investment period: 5 years; Fund term: 10 years
Investment target	Venture-to-mature-stage companies operating childcare/nursing care/ new work style-related businesses
Expected social Impact	Development and expansion of companies and businesses contributing to building an environment where people in different situation can continue working, and establishment of an ecosystem of impact investing in Japan by increasing the number of impact investors and sharing knowhow.
Highlights	● Participation by external sectors in management ● Participation by limited partners ● Selecting investees and evaluating businesses by utilizing social impact measurement

❺-3-2 Details

(1) Fund

【Japan Impact Investment II Limited Partnership (“2nd Fund”)】

① Established | June 28, 2019

② Fund size | JPY 2.6 billion (as of December 2019)

③ Main activities |

The Fund is the successor fund of Japan Impact Investment I Limited Partnership (“Child-care Support Fund”) which was established jointly by Shinsei Bank, Limited and Shinsei Corporate Investment Limited in 2017. The Fund invests in and provides growth support to worker-oriented companies operating in the field of life events of working people such as child and nursing care, by utilizing social impact measurement methodology. The Fund management and social impact measurement are carried out jointly by Shinsei Impact Investment Limited and Social Innovation and Investment Foundation.

(2) Investors

Unlike the "Child-care Support Fund" funded solely by the Shinsei Bank Group, many limited partners participate in the Fund including Mizuho Bank, Ltd. and Sumitomo Mitsui Trust Bank, Limited.

(3) Fund scheme

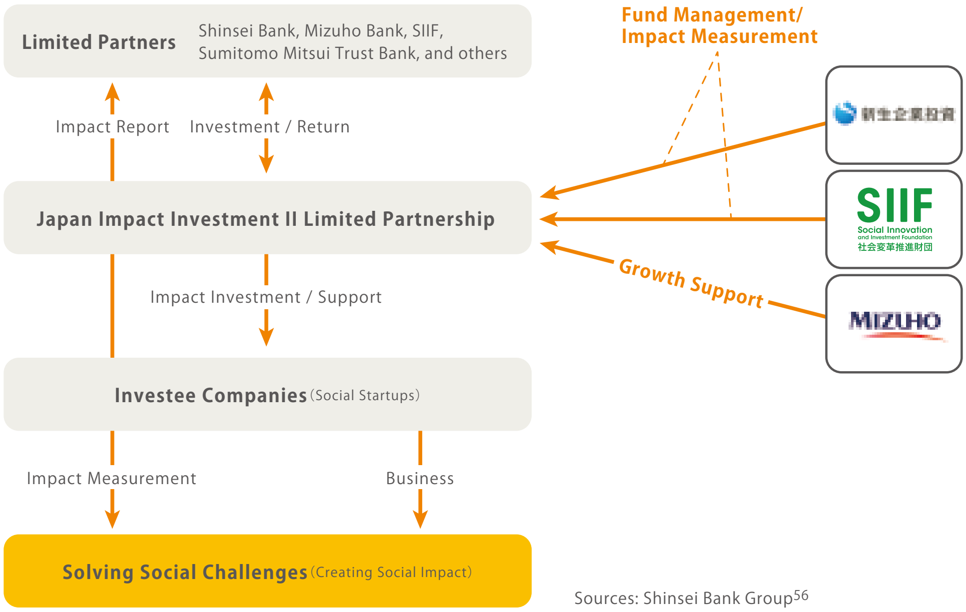
① Background of establishment of the 2nd Fund

Shinsei Bank, Limited and Shinsei Corporate Investment Limited have decided to launch an impact investment fund in 2016, based on the recognition that it was meaningful to utilize private funds to solve social issues. From the outset, the composition of the impact investment fund was envisioned in two phases. In the 1st phase, a relatively small-scale impact investment fund is launched and a demonstration of the fund is conducted with the group's own capital, and in the 2nd phase, the investment and management structure is reinforced by adding partners outside the Shinsei Bank Group. In 2017, the "Child-care Support Fund" was established as planned and investment specializing in companies operating child-care related business began. As investment business by the Child-care Support Fund has made successful progress, Shinsei Bank, Limited and Shinsei Corporate Investment Limited believed that it had been demonstrated that impact investing could be executed from the perspective of domestic institutional investors, then in 2019, they decided to move on to the 2nd phase to establish the 2nd Fund. In the 2nd Fund, after Shinsei Impact Investment Limited funded by Shinsei Corporate Investment Limited was established, Social Innovation and Investment Foundation was jointly involved in the establishment and management of the Fund to reinforce the investment and management structure as a partner that had rich global knowledge of public benefit and sociality and could leverage each other's strength. In addition, with Mizuho Bank's participation in the Fund as a management adviser, it is expected that the Bank's solid network and innovation support function including "M's Salon" will be utilized to expand the business growth and social impact of the investee companies.

② Stakeholders

The implementation mechanism and the roles of each stakeholder for the Fund are as follows. The 2nd Fund invests in companies operating child and nursing care related social businesses using funds provided by the limited partners such as Shinsei Bank, Limited and Mizuho Bank, Ltd., and returns financial returns to investors while issuing impact reports on social impact created by the businesses. While investment management, social impact measurement, and investees support are conducted by Shinsei Impact Investment Limited and Social Innovation and Investment Foundation, co-founder of the Fund, Mizuho Bank, Ltd. jointly support investee companies.

Figure 31 Investment scheme



Sources: Shinsei Bank Group[56]

Figure 32 Stakeholders and their roles

Name	Roles in the project
Japan Impact Investment II Limited Partnership	Function as a fund (financing, investment, business support, and business assessment)
Shinsei Impact Investment Limited	Fund management, social impact measurement on invested businesses, and growth support of investee businesses
The Social Innovation and Investment Foundation	Fund management and social impact measurement on invested businesses
Mizuho Bank, Ltd.	Investment and growth support of investee companies' businesses
Other limited partners	Investment
Investee companies	Implementation and growth of social business, resolution of social challenges

56 Shinsei Bank Group News Release (June 28, 2019)

(4) Comparison between the Child-care Support Fund and the 2nd Fund

The difference between the Child-care Support Fund and the 2nd Fund is as follows. The 2nd Fund has not only expanded the investment scale and business as a fund, but also involved a wider variety of players than the Child-care Support Fund, including the participation of organizations outside the Shinsei Bank Group in the management and the investment by LP investors, thereby expanding social impact while building an ecosystem of impact investing.

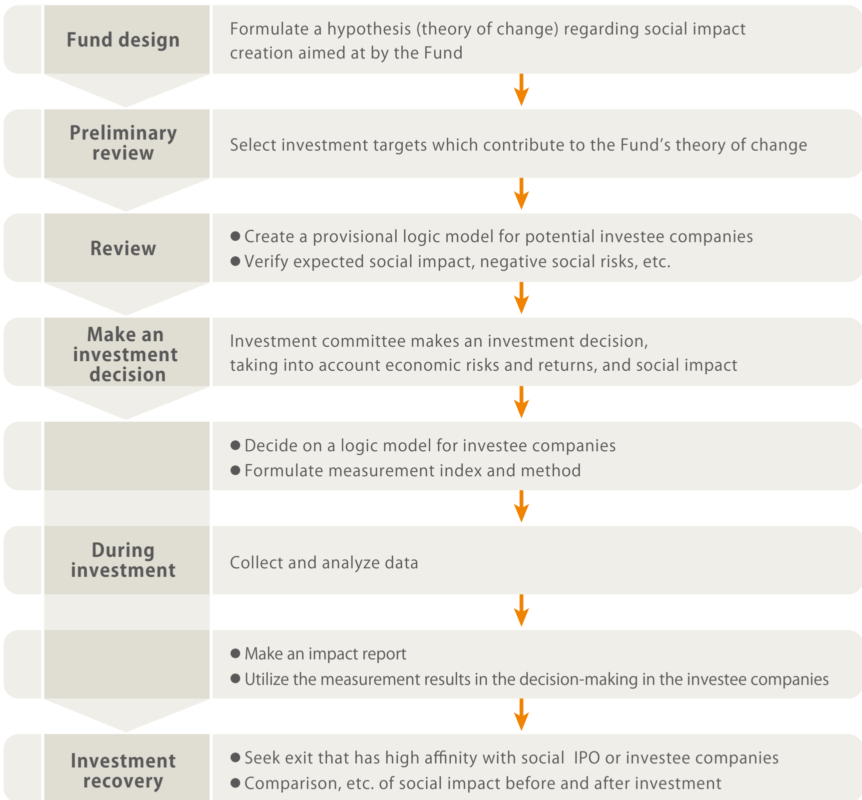
Figure 33 Comparison between the Child-care Support Fund and the 2nd Fund

	Child-care Support Fund	2nd Fund
Fund size	JPY 500 million	JPY 2.6 billion (as of December 2019)
Investment target	Childcare	Childcare, nursing care, and new work style-related businesses
Management (GP)	Shinsei Corporate Investment Limited	SIIF participates outside the Shinsei Bank Group, and Mizuho Bank, Ltd. joined as an adviser
Limited Partners	Shinsei Bank	Shinsei Bank, Limited, Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited, The Bank of Yokohama, Ltd., educational corporations, industrial corporations, and others
Utilization of Social Impact Measurement	Coordinate the implementation of social impact measurement on a project-by-project basis. A logic model is utilized only for business assessment after investment	A logic model is utilized for both investment decision and business assessment in all projects. Organizational assessment after investment will be conducted, and an impact report will be issued to limited partners in the future

Both the Child-care Support Fund and the 2nd Fund make working people the centerpiece of projects, aiming at realization of society where they can continue to work by overcoming events which prevent them from continuing to work including childcare, nursing care, and their own illness. While childcare was the only theme of the Child-care Support Fund, the scope of investment covered by the theme of the 2nd Fund has been broadened to the area of investment that was originally envisioned. Narrowing down the theme in the Child-care Support Fund enabled the accumulation of more knowledge and network about the industry. Those knowledge and network can be used in the 2nd Fund since some issues are common to childcare and nursing care.

In the Child-care Support Fund, social impact and performance indicators are measured after investments but no logic model was created before investments. In the 2nd Fund, progress has been made in viewing social impact: a logic model is created and performance indicators are discussed in the project examination stage before investments. In addition, a theory of change is set up at the fund level in the 2nd Fund to discuss what challenges should be solved through the Fund and what kind of portfolio should be constructed to solve them. One factor behind that point is that issuing an impact report to investors is also taken into account as external investors also participate in the 2nd Fund. Specifically, social impact measurement is conducted as follows. The 2nd Fund intends to expand social impact by selecting investee companies that contribute to the social impact creation, evaluating their progress of investment from both quantitative and qualitative aspects, and working on social impact management utilized in decision-making in the investee companies.

Figure 34 Social impact measurement process



(5) Key takeaways

① Possibilities of expanding an ecosystem of social impact investing by participation of external sector into management and limited partners' participation

The most striking feature of the 2nd Fund is, as mentioned above, participation by organizations outside the Shinsei Bank Group. Social Innovation and Investment Foundation participates in the Fund management and Mizuho Bank, Ltd. also provides assistance while many limited partners are investing in the Fund.

As an example of external sector participation in management of the Fund, Social Innovation and Investment Foundation participates, and takes charge of the development and implementation of social impact measurement and social impact management through the investment process. This type of joint management system which effectively uses the respective strength of participants can be one model of impact investing in Japan.

One of the primary motives for a wide variety of limited partners to get involved in the Fund is to obtain examples and knowledge of impact investing. In recent years, actions to achieve the SDGs and impact investing have been encouraged in Japan. While impact investing appears to attract a growing interest among investors in Japan as shown by the fact that many investors have invested in the Fund, in reality, examples and know-how of impact investing are not sufficient enough. In response to such a situation, the Fund aims to contribute to formulating an ecosystem of impact investing in Japan by not only directly providing opportunities for impact investing but also sharing know-how in the execution of impact investing through conducting of and reporting on social impact measurement. With industrial corporations also participating, the Fund serves as an interface that connects industrial corporations which need open innovation in their business development with startups and technology companies contributing to solving social issues with which the Fund has a relationship. As the fund has collected information of various companies regardless of whether or not actual investment is made, for those industrial corporations which seek to make contact with startups and technology companies to achieve the SDGs or solve social issues but have no idea where to start, participating in the funds that execute impact investing like the Fund can be a breakthrough.

② Balancing financial returns and social impact by utilizing social impact measurement

The point of argument in executing impact investing is how to explore businesses in which financial returns and social impact are balanced out. In that regard, the Fund selects and provides support to investee companies by focusing attention on their business models and utilizing social impact measurement. Regarding the business models, it is checked whether an increase in the number of clients or users will lead to the economic benefits. The clients or users refer to, in many cases, beneficiaries or creators of social values generated by businesses. Regarding utilization of social impact measurement, a logic model is created at the pre-investment stage and a hypothesis is formulated as to what logic and process the business will utilize to create social impact, before deciding on whether to invest. By utilizing such approach and methodology, the Fund enables investment where financial returns and social impact balance out even though potential businesses in which impact investing is executable are narrowed down to some extent.

Furthermore, social impact management in accordance with the globally accepted standards of practice such as IMP is implemented, including finalizing a logic model and impact measurement index after investment to collect and analyze data and reflect the measurement results in the investee companies' business improvement and decision-making. In this way, the Fund intends to expand social impact by not only simply measuring and evaluating social impact, but also utilizing the measurement results in the investee companies' decision-making process.

❻ Insights from the Current Impact Investing Market

As explained in this chapter, the balance of impact investing in Japan was at least JPY 317.9 billion in size in 2019. The survey shows that the Japanese impact investing market continues to expand: 5 new entrants executed impact investing this year while 9 out of 11 organizations which had continued to reply the questionnaires since 2018 expanded their activities.

The findings include cases of business partnership agreement with financial institutions that led overseas impact investing activities and investment in the funds related thereto, and in Japan, too, participation in the impact investing funds by several financial institutions and business entities (these cases are not included in the market size). From those cases, it is expected that knowledge will be accumulated regarding project management, etc. towards project formation, social impact measurement, and achievement of performance indicators, which will lead to further expansion of impact investing activities in the next year and beyond.

The survey pointed to the following measures and expectations that could help impact investing take root and further expand in Japan.

Figure 35 Measures and expectations moving forward

① Leadership by top management
② The increase of the number of investment cases in a social/environmental field
③ Institutionalization for impact investing promotion
④ Development of skilled experts to measure social impact

① Leadership by top management

The fact that social and environmental impact creation tends to manifest in the mid-long term and only top management can make the decision to wait for impact to manifest may be why there is a sense that awareness and understanding from the head of an organization is necessary.

② The increase of the number of investment cases in a social/environmental field

Considering that capital providers including financial institutions act in response to demand for supplying funding, it is necessary to increase investment cases to which capital providers can actually supply funding.

③ Institutionalization for impact investing promotion

In terms of national and regional government regulations, some possible measures include requiring the allocation of a set portion of investment lending to impact investing or promoting aggressive implementation of impact investing in public investment.

The enactment of the Dormant Accounts Utilization Bill in 2016 effectively started in 2019, with the selection of Organizations Distributing Funds by Japan Network for Public Interest Activities (JANPIA) which was appointed as the Designated Utilization Organization by the Cabinet Office. Social impact measurement is planned to be used in the utilization of dormant accounts, and this movement is expected to lead to promotion of social impact measurement and impact investing activities in the future.

④ Development of skilled experts to measure social impact

As knowledge regarding social impact measurement is not yet widespread, efforts which lead to dissemination and furthering awareness are needed. Once there are more capable individuals who can deliver concrete and hands-on investigations and measurements, this will likely lead to a more investor-friendly foundation for impact investing.

Conclusion

According to the survey, Japan's impact investing balance has expanded from JPY 17 billion in 2014, to at least JPY 317.9 billion in 2019, though the 2019 survey revealed a JPY 344.0 billion market in 2018. The 2019 survey did alter impact investing's definition, which should have influenced the result. More specifically, pre-2018 surveys regarded impact measurement before investment as a prerequisite for impact investing but from 2019, impact measurement before and after investment became the prerequisite.

The impact investing market is expected to expand further in 2020, supported by national and regional governmental attempts to connect SDGs to financal firms and dormant bank account activation. As the overall market continues to grow, ensuring impact investment quality grows with quantity should be a primary stakeholder concern.

Contributions, etc. Topics Related to Impact Investing

While impact investing activities are spreading and expanding, there exist various views regarding difference and definition between impact investing and ESG investment. With the spread and expansion of impact investing, more attention is focused on the size and methodology of impact investing while there are moves to simply use impact investing as a marketing tool such as impact washing (giving a semblance that there is social impact which does not actually exist), thus some people question whether impact investing really creates social impact. With the spread and expansion of the idea of impact investing in Japan, there are moves to combine the SDGs and finance, a move which can lead to future expansion of impact investing.

Topics which relate to the spread and expansion or which lead to further expansion of impact investing in Japan are attached in the form of contributions and interviews.

Attached articles are contribution by Mr. Eiichiro Adachi, counselor of The Japan Research Institute, Limited, regarding the relationship between ESG investment and impact investing as a topic associated with the spread and expansion of impact investing in Japan, and an interview column with Mr. Reiji Yamanaka, director of KIBOW Impact Investment Team, regarding significance of impact investing viewed from the scene of impact investing. The domestic trend of SDGs x Finance is also attached as a topic which can lead to further expansion of impact investing.

It should be noted that opinions in these articles are personal views of a contributor or an interviewee and do not represent the official views of organizations to which they belong or the GSG National Advisory Board.

List of contributions, etc.

No.	Topic	Summary	Author
1	Relationship between ESG investment and impact investing	Discussion of the relationship between ESG investment and impact investing based on history to provide future prospect (contribution)	【Contribution】 The Japan Research Institute, Limited Mr. Eiichiro Adachi
2	Significance of impact investing viewed from the scene of impact investing	Interview column regarding what is happening at the scene of impact investing and the significance of impact investing viewed from the relationship between investors and entrepreneurs	【Interviewee】 KIBOW Foundation Impact Investment Team Director Mr. Reiji Yamanaka
3	The domestic trend of SDGs × Finance	Discussion of how the SDGs, as a "shared language" between investors and entrepreneurs, can affect impact investing (contribution)	【Writer】 K-three Inc. Mr. Toshiaki Kataoka

❶ Relationship between ESG investment and impact investing

Contributor : Mr. Eiichiro Adachi, The Japan Research Institute, Limited

Think and act in accordance with the concept of "fiduciary responsibilities"

About 50 years ago, when I was a child, I was repeatedly told by the adults around me that I had to manage my money strictly. You have to split the bill to the last yen when paying for your own account, repay all of the amount you borrowed, and calculate and report in writing balance of a shared-cost event, and so on. I did not understand why they especially emphasized "it's about money"; however, now I know it is because there has been never-ceasing financial troubles in our society. Although I am not sure whether children nowadays are raised in the similar manner, the situation surrounding money seems unchanged even now, at 50 years later. Various incidents provoked by financial troubles have been repeatedly reported.

It is needless to say that an attitude of strict money management must be pursued in providing basic financial functions including store of value such as safe deposit boxes, settlement such as payment agency (transfer), and fund intermediation such as deposits and loans. Economic activities cannot be carried out soundly if assets disappear or payment is not made due to acts or errors of the financial institutions. Therefore, financial institutions are put under certain control of the supervisory authorities. It is for this reason that financial business makes it a principle to ensure trust.
However, when we focus our attention on the function of the financial intermediation in financial business, there are some issues that are difficult to handle. In the case where a lender (capital provider) and a user (fund-raiser) of capital make a direct deal with no third party involved, the only way to handle the difficulty in recovery of the capital (fund-raiser's default) is to leave it to an after-the-fact process between the parties.

In the case where a financial institution performs the function of intermediation, that financial institution is questioned whether it has made an effort to the greatest possible extent to avoid the situation where recovery of fund becomes difficult. If the financial institution is a bank, the bank is questioned whether proper credit control has been performed on borrowers, necessary allowance for bad debts has been reserved, and so on. In the world of indirect financing where commercial banks have been traditionally major players, total amount of recovery is predictable as recovery of fund for capital providers consists of principal and promised interest payment. In addition to that, it is possible to control the occurrence of events which make it difficult to recover fund by diversifying the risk of fund-raiser's default.

When it comes to securities investment such as stocks and bonds, the situation becomes even more complicated. A capital provider tries to recover (or maintain potential opportunity to recover) funds as much as possible while allowing for the possibility of the damage to the capital invested (principal) in the future recovery of the funds. The amount of funds recovered of marketable securities consists of the market value of the securities, dividends, coupons, etc., which are constantly fluctuating. Thus, it is impossible to foresee the amount to be recovered though it is possible to predict it even at the time of investing and afterwards. The situation is the same for both capital providers and financial institutions which perform the function of intermediation.

As such, capital providers always act with the suspicion that they could have recovered a larger amount of funds if they had made another decision. The financial institutions (mostly trust banks, asset management firms, and securities companies which sell investment products) are questioned more severely whether they had made efforts to ensure that capital providers can recover the capital they had invested as much as possible; however, in the case of securities investment which always involves uncertainty, it is not easy for the financial institutions to prove that. The concept of "fiduciary responsibilities" has been cultivated through years of experience in the tension between capital providers and financial institutions which perform the function of intermediation in the world of direct financing. The major components of this concept include "prohibition of considering other matters in investing, exercising voting rights, and so on."

From social responsible investment (SRI) to ESG investment

The term "ESG investment" has become widely accepted globally with the launch of the "Principles for Responsible Investment" in 2006, and subsequent increase in the number of asset owners and asset managers, and others who approved and signed on to the principles. Environmental (E), social (S), and governance (G) factors were specified in the 3 out of 6 principles such as "We will incorporate ESG issues into investment analysis and decision-making processes." As a result, the term "ESG investment" has become commonly used.

However, the movements of performing an investment analysis and decision-making taking into account environmental (E), social (S), and governance (G) factors did not suddenly begin in 2006. Before that, there had been investment behaviors called Socially Responsible Investment (SRI), which aimed at correcting social issues, for decades. SRI had also been exposed to harsh criticism for violating "fiduciary responsibilities."

Under the circumstances where SRI was performed by individuals, educational corporations, and religious groups that had strong interest in social issues, SRI was considered as an investment which noticeably reflected investors' tastes and gave up maximizing the amount of investment recovery itself. When pension funds emerged and started to provide financial support including housing development for low-income individuals, they were criticized for violating "fiduciary responsibilities" by some pension holders. The criticism was most pronounced in the US, and in some states courts decisions were given that investment analysis and decision-making performed by those pension funds were illegal.

In reality, many traditional financial institutions have maintained a distance from SRI for a long time. The situation changed drastically with the launch of the "Principles for Responsible Investment." The group which led the "Principles for Responsible Investment" thoroughly committed to building a consensus that performing investment analysis and decision-making taking into account environmental (E), social (S), and governance (G) factors would not violate "fiduciary responsibilities." The group stressed that some cases showed performing investment analysis and decision-making considering environmental (E), social (S), and governance (G) factors contributed to maximizing the amount of investment recovery, based on the analysis of cases where a global law firm had cooperated with the consensus-building, a company which had caused marine environmental pollution suffered enormous damages, and a company found with child labor on its supply chains faced with sales decline due to a boycott caused by consumers. It even expressed concerns that if climate change problems and other issues became more serious in the future, not executing ESG investments would be violating fiduciary responsibilities.

The assertion of the group which had led the "Principles for Responsible Investment" gained support among capital providers and financial institutions, together with the understanding that the source of corporate value was shifting to the assets that cannot be visualized (intangible assets), and that negative externality (decline in productivity of the entire economy) could lead to a decrease in the amount of investment recovery in the longer term. The advent and spread of the term "ESG investment" paved the way for investment analysis and decision-making which take into account environmental (E), social (S), and governance (G) factors to be released from the spell of violating "fiduciary responsibilities."

Over impact investing

It should be noted; however, that "ESG investment" does not have implications of considering all of the environmental (E), social (S), and governance (G) factors. Thus, the premise is that focus should be limited to considering factors which contribute to maximizing the amount of investment recovery.

As the concept becomes clearer, there are some people who are not always satisfied with such investment behavior. Then the term "impact investing" has emerged. Global Impact Investing Network (GIIN) defines impact investing as investment in the enterprises, organizations, and funds, which generates social and environmental impact as well as financial returns, and states that, as its characteristics, the most important factor of impact investing is the investors' intention of creating social and environmental impact through investment. The GIIN does not mention that "generating financial returns" is to "aim at maximizing the amount of investment recovery."

The definitions or interpretations of impact investing among the Organization for Economic Co-operation and Development (OECD), the G8 Social Impact Investment Task Force, the World Economic Forum, and the European Commission, in addition to the GIIN, have three elements in common: (1) achieving specific social goals or pursuing social (and environmental) impact is clearly intended, (2) financial returns including recovery of principal at a minimum are expected, and (3) measurement and reporting of impact are intended to be institutionalized.

Given the above, it can be surmised that currently there are 3 positions with different characters standing side by side. The 1st position requires both (1) and (3) while, regarding (2), requiring factor of "aiming at securing returns on investment equal to or above the market average." "The Case for Simplifying Sustainable Investment Terminology" released by the Institute of International Finance (IIF) in June 2019 is a typical example. There, the term impact investing is not used, instead, a "methodology aiming at securing returns on investment equal to or above the market average while pursuing direct, positive, and measurable impact on society and environment" is named as "impactful investment", and a "methodology which pursues direct, positive, and measurable impact on society and environment without seeking returns on investment equal to the market rates" as "philanthropic investment." The IIF explains that philanthropic investment is not within the scope of sustainable investments, and appears to be in the position to see investments which satisfy the conditions of impactful investment as a form of ESG investments even though it does not explicitly state that.

The 2nd position requires both (1) and (3) while, regarding (2), requiring factor of "having an expected rate of return equal to or above zero, without pursuing a rate of return equal to or above the market average (even if the rate of return ends up being higher than that)." This is the position that the OECD takes, and the GIIN's view is close to that of the OECD. In "Social Impact Investment: The Impact Imperative for Sustainable Development" released in January 2019, the OECD proposed that "although many of the current impact investing is targeted at areas which generate returns relatively easily including financial services, energy, and housing, social impact investing should be defined as investments in the development targeting people and countries in need in the developing regions and in the core area of social and environmental needs. Considering the above, impact investing is different from ESG investment.

The 3rd position places special emphasis on (3), and thinks that any investment can be called "impact investing" as long as comparable and consistent impact reporting is done and verification conducted by an independent institution. International Finance Corporation (IFC) appears to take this position. The Operating Principles for Impact Management, released by the IFC in April 2019 in partnership with Partners Group, Commonwealth Development Corporation (CDC), Nuveen, an investment management firm, and other organizations articulates the requirements for institutionalization of impact measurement and reporting. The number of signatories to the operating principles has grown to over 80. From the perspective of the 3rd position, impact investing and ESG investment are not mutually exclusive, and there is no great significance in discussing the relationship.

Looking forward

In my personal opinion, I expect that the aforementioned 3 different definitions or interpretations will continue to coexist for the next 5 years or so. As many have pointed out, there is no denying that confusion caused by different definitions or interpretations of the terms will hinder the market growth. However, it is difficult for traditional financial institutions to easily overcome the barrier of "fiduciary responsibilities." On the other hand, those who engage in development which have been supported by public funds or donors in the private sectors know by intuition that it is not easy to draw up projects which can generate financial returns above the market average while creating meaningful social impact, and that as long as you stick to financial returns above the market average, you cannot afford to work on social issues that really need to be solved.

We can only verify in the certain time span as to the extent to which we can develop projects or enterprises that can generate financial returns above the market average while creating meaningful social impact. And if institutionalization of impact measurement and reporting entails enormous costs, investors will be hindered from maximizing the amount of investment recovery. For example, it still takes some time for investors and investees to reach an agreement on how to make a compromise between simplicity and reliability of impact reporting. This is why I expect that the definitions and interpretations will not converge for the next 5 years or so.

I would like to add one more point. It should be noted that there has been always some financial intermediaries which intentionally caused a lot of damage to or misappropriated the assets of the capital providers while soliciting investment by emphasizing social and environmental impact. The overseas saying goes, "The road to hell is paved with good intentions." Recently, there has been a succession of similar scandals in the area of crowdfunding. Great attention should be given to impact investing so that it will not suffer from reputation of being a representative of suspicious investment method. Those who are involved have to think over the teaching "you have to manage your money strictly" again and again before taking action.

❷ Significance and reality of impact investing

Interviewee : KIBOW Foundation, Impact Investment Team Director Mr. Reiji Yamanaka

Summary of KIBOW Shakai Toshi Fund II[57]

Objective of the Fund	● To invest in entrepreneurs who can contribute to solving social issues, support their growth, and accelerate social change ● To create a new scheme of flow of funds for private funds to be used for the above objective
Organization	● The Fund has been launched as a private association under General Incorporated Foundation KIBOW ● Total commitment of the Fund: JPY 500 million ● General partner (GP) of the Fund: KIBOW Foundation ● Operational management: Reiji Yamanaka, Takeshi Igarashi, Suzuka Kobayakawa, Yasuji Takahara, and Takanori Matsui
Management period	April 2018 - March 2038 (20 years)

What is social impact generated by investment?

KIBOW Shakai Toshi Fund aims at generating social impact, targeting enterprises which try to solve serious social issues that fall into the following 3 categories.

Firstly, enterprises which try to solve issues of "some people suffering from negative social effects including great hardship, sadness, and infringement of rights that should not be left unattended." For example, the Fund invests in enterprises which intend to break through the situation where people are discriminated against at work on the basis of disabilities or gender. Secondly, enterprises which seek solutions to "the community's sustainability crisis." Although there are various levels for communities, for example, a community which addresses the sustainability of social security in Japan. Thirdly, enterprises which are taking action against "the sustainability crisis of all mankind." Specifically, issues such as climate change are targets of those enterprises' businesses.

KIBOW Shakai Toshi Fund expects that by investing in enterprises which try to solve serious social issues like those will change direct beneficiaries, and that the ripple effect caused by the investments will lead to a change in the system of entire society. To aim at such a system change, it formulates a hypothesis[58] regarding the system change from the perspective of investors before investing. This hypothesis of a system change will provide enterprises and investors with an opportunity to discuss on it, which will lead to a deeper mutual understanding of their visions and businesses. In addition to the hypothesis of a system change, KIBOW always seeks ways to achieve the intended social impact including the use of quantitative objectives of the targeted social impact for each project in the investment decisions.

57 Refer to the website of KIBOW Foundation. http://kibowproject.jp/investment/fund.html

58 Also called Theory of Change. Theory of Change is generally used for the same purpose as logic models.

After investment, the Fund performs impact measurement on a regular basis to encourage enterprises to improve their businesses. It places emphasis on qualitative information as well as quantitative values. Realizing social impact being generated leads to an incentive for the enterprises to incorporate an impact management cycle[59] into their management process. The Fund also provides management support to grow business, which is regarded as necessary support to increase social impact generated, since the pre-investment hypothesis confirms that social impact expands as the business grows.

Such investment attitudes can be seen in the actual investment projects. For example, in the case of Aisansan Takushoku Co., Ltd., the first investee company, the originally targeted social impact were meal assistance for elderly people at home and employment of the socially vulnerable including persons with disabilities. KIBOW Shakai Toshi Fund consulted with the management of the company to quantitatively measure the amount of increase in the annual income of persons with disabilities before and after they join the company. After that, Aisansan Takushoku has grown to the company that provides multiple services including a variety of services to elderly people, as a result of pursuing support beyond self-satisfaction of simply delivering meal boxes. It has adopted various methods in accepting persons with disabilities including support for continuous employment (type A and B) and employment transition support to provide individuals with support to be a professional care workers. As a result, the company stopped measuring social impact with a single indicator, and tries to develop impact measurement into the measurement that confirms whether both users and workers (including persons with disabilities) can feel that they are truly happy that they were born. At the same time, each business division in Aisansan Takushoku, together with the staff and users, shares the Most Significant Change, a story of the most life changing experience they had, and report the summary of the stories to the Board of Directors for the subsequent management decisions. The progress of impact management like this has been brought about by the dialogue between management and investors, not by the investors' one-sided guidance.

59 A management cycle which consists of 4 stages of plan, do, assess, report & utilize. It is important to take it as a cycle to address targeted social issues in improving social impact, rather than a cycle for one business. Sources: Social impact management Initiative http://www.impactmeasurement.jp/wp/wp-content/uploads/2018/12/impact-management-cycle-outline.pdf

Relationship between financial returns and social impact

The relationship between financial returns and social impact has been constantly argued in impact investing. When investing in enterprises which tackle social issues, there are cases where management decisions are made without regard to economical efficiency to pursue social impact, and conversely, there are cases where the company grows differently from what has been envisioned by the management as a result of strong pursuit of financial returns due to the investors' lack of understanding of social impact. As those cases show, communication between investors and management is one of the challenges of impact investing. The KIBOW Shakai Toshi Fund agrees with the management to aim at generating both financial returns and social impact prior to investment, and the investee company's mission is specified in the investment contract (mission lock). As an investment policy, the Fund invests in enterprises where there is no trade-off between profitability and sociality but they are mutually reinforcing. In each strategic decision, an outside director designated by the KIBOW Shakai Toshi Fund and the management have a discussion from the perspective of growth in both social impact and profits, then final decision is made at the Board of Directors. Sometimes a decision is made with emphasis on the short-term financial stability even though the Fund and enterprise aim at generating big social impact. Since the basic values have been agreed by both parties prior to investment, there is little deviation in values and a decision is made under constructive discussion.

Recent changes and trends in impact investing

This section describes the trends of impact investing in general with a focus on changes in the KIBOW Shakai Toshi Fund. KIBOW Foundation established the 2nd Fund in 2018. There has been developments, both internally and externally, in response to changes in the environment surrounding impact investing since the establishment of the 1st fund in 2015. Mr. Yamanaka pointed out the following 3 developments.

The first is the internal development of an increase in the amount of investment per project. The amount of investment was limited to between JPY 10 million and 20 million in the 1st Fund. In the 2nd Fund, it became possible to flexibly execute an investment of up to JPY 50 million, thereby providing investee companies with higher growth and bigger social impact.

The second development is changes in the external environment, that is, investment in enterprises tackling social issues has increased in the venture capital industry as well. With these changes, KIBOW will have to work on collaboration with venture capital while promoting product differentiation.

The third development is that performing social impact measurement and impact management after investment have been strengthened in its own funds. The need for the third development is pointed out from the perspective of differentiating the company from venture capital mentioned in the second development, and the perspective of the global advancement of impact management that includes measurement after investment. The background to the former is that approaches to social issues are also emphasized in equity stories including growth scenarios. There is no particular concerns[60] that introducing venture capitals' fund into investment may weaken social impact of investee companies, and the KIBOW Shakai Toshi Fund can also aim at collecting funds from other venture capitals to invest in the future while taking on the task of lead investing. Regarding the latter point that impact management has been advanced, in addition to that impact measurement is a clear prerequisite for impact investing, an increasing number of investors take impact management into account in selecting investee companies, formulating impact strategies, and improvement cycle after investment, as described in the GIIN's report[61]. This means that impact investors in Japan are also required to evolve.

Significance of impact investing from the perspective of both entrepreneurs and investors

In closing, this section describes the significance of impact investing from the perspective of both impact investors and enterprises that receive investments, based on practices of impact investing to date.

The effect on public relations is pointed out from the point of view of the enterprises receiving investments. By receiving investment from impact investors, an enterprise is perceived favorably by society as a company that stands up and faces social issues. Thus the way people see the enterprise may change. This may bring positive effects on the enterprise's recruitment. In fact, there are more than 10 cases in which competent people related to Globis have joined the enterprises invested by the KIBOW Shakai Toshi Fund. It can be pointed out as consistency in those cases that a trend has been formed in Japan to assess enterprises that tackle social issues. More and more people have become interested in not only making money but also changing society, where they find incentives to work. It appears that psychological barriers to accepting investments are lower for enterprises tackling social issues, since discussion based on not only financial returns but also targeted social impact is possible with impact investors compared to general investors who may require decision-making based solely on financial returns.

From the point of view of the investors, it is pointed out that the effect on the speed in solving social issues can be improved, with more funds flowing into the area of solving social issues. In the longer term, by creating and disseminating globally an impact investing model unique to an aging society that Japan is experiencing ahead of any country in the world, we can contribute to solving global social issues.

With the rapid increase in attention to solving social issues by means of business not only in Japan but also around the world, impact investing is meaningful to both top management and investors in that it provides the means to develop discussions on the scene based on social impact. An investment attitude like the KIBOW Shakai Toshi Fund that incorporates quantitative objectives of targeted social impact into investment decisions and pursues changes in systems by building on discussions with top management after investment will serve as a model for impact investing that intends to create social impact.

60 Also called mission drift. The KIBOW Shakai Toshi Fund embeds a mission lock clause within the investment contract to address the concern.

61 Rachel Bass, Hannah Dithrich, Sophia Sunderji, Noshin Nova. "The State of Impact Measurement and Management Practice, Second Edition", GIIN, 2020. https://thegiin.org/research/publication/imm-survey-second-edition

❸ The domestic trend of SDGs × Finance

Written by Mr. Toshiaki Kataoka, K-three Inc.

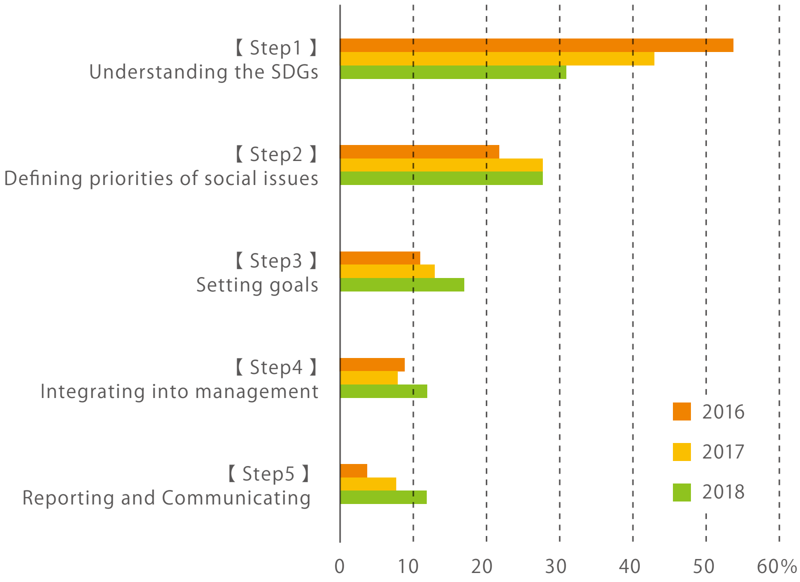
The Sustainable Development Goals (SDGs) are collection of 17 clearly defined goals and 169 targets, set unanimously in September 2015 by the United Nations General Assembly. These global goals are to be achieved by 2030 through worldwide cooperation, aiming at promoting voluntary commitments and activities by not only governments but also all stakeholders including citizens, companies, and academia around the world.

It has been over 4 years since the formulation of the SDGs, and the SDGs have gradually gained recognition and permeated among entrepreneurs. The SDGs have steadily begun to take root among companies and organizations, as witnessed in the SDGs awareness survey results in the chart below.[62] The number of respondents who replied that the SDGs are "resonating with top management" has grown annually from 20% in 2015, to 28% in 2016, 36% in 2017, and 59% in 2018, and is expected to continue its upward trajectory. Regarding how far companies are incorporating the SDGs, the rate of those who selected Step 1 "Understanding the SDGs" declined (from 54% in 2016 to 43% in 2017, and to 31% in 2018), and in turn, the rates of those who selected Step 2 "Defining priorities of social issues" (22% in 2016 to 28% in 2017 and 2018), Step 3 "Setting goals" (11% in 2016 to 13% in 2017, and to 17% in 2018), Step 4 "Integrating into management" (9% in 2016 to 8% in 2017, and to 12% in 2018) and Step 5 "Reporting and communicating" (4% in 2016 to 8% in 2017, and to 12% in 2018) rose, respectively. It can be surmised that many companies and organizations have moved forward to the implementation stage of the SDGs.

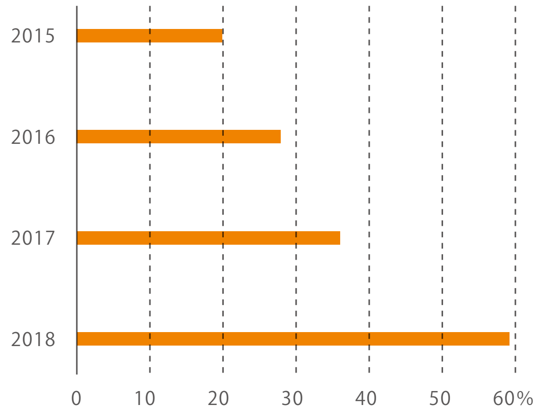
62 Institute for Global Environmental Strategies (IGES) and the Global Compact Network Japan (GCNJ) (2019) "Mainstreaming the SDGs in Business : Actions by Companies and Organizations in Japan)

The SDGs awareness survey

State of progress on the SDG Compass (%) (n=99 [2016], 163 [2017], 180 [2018])



Rate of companies that responded the SDGs are "well known by top management"



Created by K-three, based on reports by IGES / GCNJ

In addition, investors and financial institutions including securities industry, banking industry, and insurance industry that provide funds to entrepreneurs have expanded their efforts to achieve and promote the SDGs. Thus the SDGs have become a “shared language” among entrepreneurs, investors, and financial institutions.

Some national and local governments are working on connecting the SDGs to entrepreneurs and finance, represented by the Regional Revitalization SDGs and ESG Financial Research and Study Group established by the Cabinet Office. The study group discusses promoting SDGs finance for regional revitalization toward the achievement of the SDGs by local governments. Specifically, it examines assessment methods for achievement of the regional revitalization SDGs including registration and certification system and financial commendation system.

The registration and certification system visualizes the efforts to achieve the regional revitalization SDGs by local entrepreneurs. The local and national governments (third party institutions, etc.) confirm and examine applications from local entrepreneurs in accordance with the guidelines specified by the national government to register and certify them. The financial commendation system is to assess regional financial institutions that actively support local entrepreneurs who tackle the regional revitalization SDGs through financing including investments and loans. Those systems can lead to future expansion of impact investing, as follows.

Since local entrepreneurs who are registered and certified are recognized as companies working on the regional revitalization SDGs, they can be potential investees of impact investing. The questionnaire survey of this report points to the need for “the increase of the number of investment cases in a social/environmental field” to expand impact investing in the future, and the registration and certification system can lead to “the increase of the number of investment cases in a social/environmental field.” The financial commendation system can contribute to the growth in the number of impact investing players through awards for regional financial institutions that execute impact investing. Considering the above, those systems can support efforts of both regional financial institutions which provide funds and local entrepreneurs who receive funds, toward the expansion of impact investing.

In order to steadily link those systems to the expansion of impact investing, it is considered necessary to set proper assessment criteria in the process of system design in the future. For example, if registration and certification criteria and requirements are eased in order to seek applications or participation from a wider range of local entrepreneurs, the registration and certification system simply assigns goals of the SDGs to existing businesses or efforts of local entrepreneurs. As a result, those entrepreneurs may be registered and certified as companies working on the regional revitalization SDGs without being properly assessed whether they are really creating social impact to achieve the SDGs. Registering and certifying the regional revitalization SDGs without conducting proper assessment may adversely affect the expansion of impact investing. Awarding the regional financial institutions that support such entrepreneurs will not lead to the expansion of social impact or impact investing. If registration and certification are to be given to local entrepreneurs as companies working on the regional revitalization SDGs, it is necessary to establish criteria and conditions to assess their business outcome to see whether they are generating social impact and whether they are not generating negative social impact, and to quantitatively and qualitatively assess their contribution to the achievement of the SDGs.

The state of social issues and environment surrounding businesses are changing constantly. Businesses that were once certified as generating social impact and contributing to the achievement of the regional revitalization SDGs in the past may no longer generate social impact due to the passage of time or changes in the environment, etc. They may even generate negative social impact toward the achievement of the SDGS. It is necessary to confirm and assess the efforts made by the local entrepreneurs and update the status of their registration and certification on a regular basis even after they are registered and certified. It is also necessary to require them to constantly try to improve their businesses through social impact management and other means to achieve the SDGs.

On the other hand, given knowledge and managerial resources, it may not be easy for local entrepreneurs to quantitatively and qualitatively measure and understand social impact created by their own businesses. The questionnaire survey in the latter chapter also points to the need for "development of skilled experts to measure social impact" to expand impact investing in the future.

The initiative undertaken by the local governments to link entrepreneurs to finance through the "shared language" of SDGs is expected to offer one solution to the above concern.

Kanagawa Prefecture is working toward achieving the SDGs. It has implemented the "SDGs Social Impact Evaluation and Demonstration Project" since 2018, which aims to connect conducting social impact measurement and management to investments and loans from the market including capital providers. This project "visualizes" social values to improve values and social sustainability while aiming at "creating an ecosystem which continuously generates sustainable values toward the achievement of the SDGs by communication and activities among diverse stakeholders" through communication with investors and financial institutions which are fund providers. As one of the project, a training program is implemented to develop human resources for social impact measurement. Business supporters and capital providers in addition to entrepreneurs participate in the training program to understand social impact through quantitative and qualitative approaches. Based on that, they learn techniques for social impact management for business improvement and decision-making to improve social values.

It is expected that the expansion of those initiatives will lead to an increase in understanding and knowledge of social impact measurement, an increase in the number of players, and an improvement in the quality of the value creation process through communication among diverse players. This will link to the initiatives by the national government on the regional revitalization SDGs, contributing to the growth in businesses or projects which create social impact toward the achievement of the SDGs and consequently to the expansion of impact investing.

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