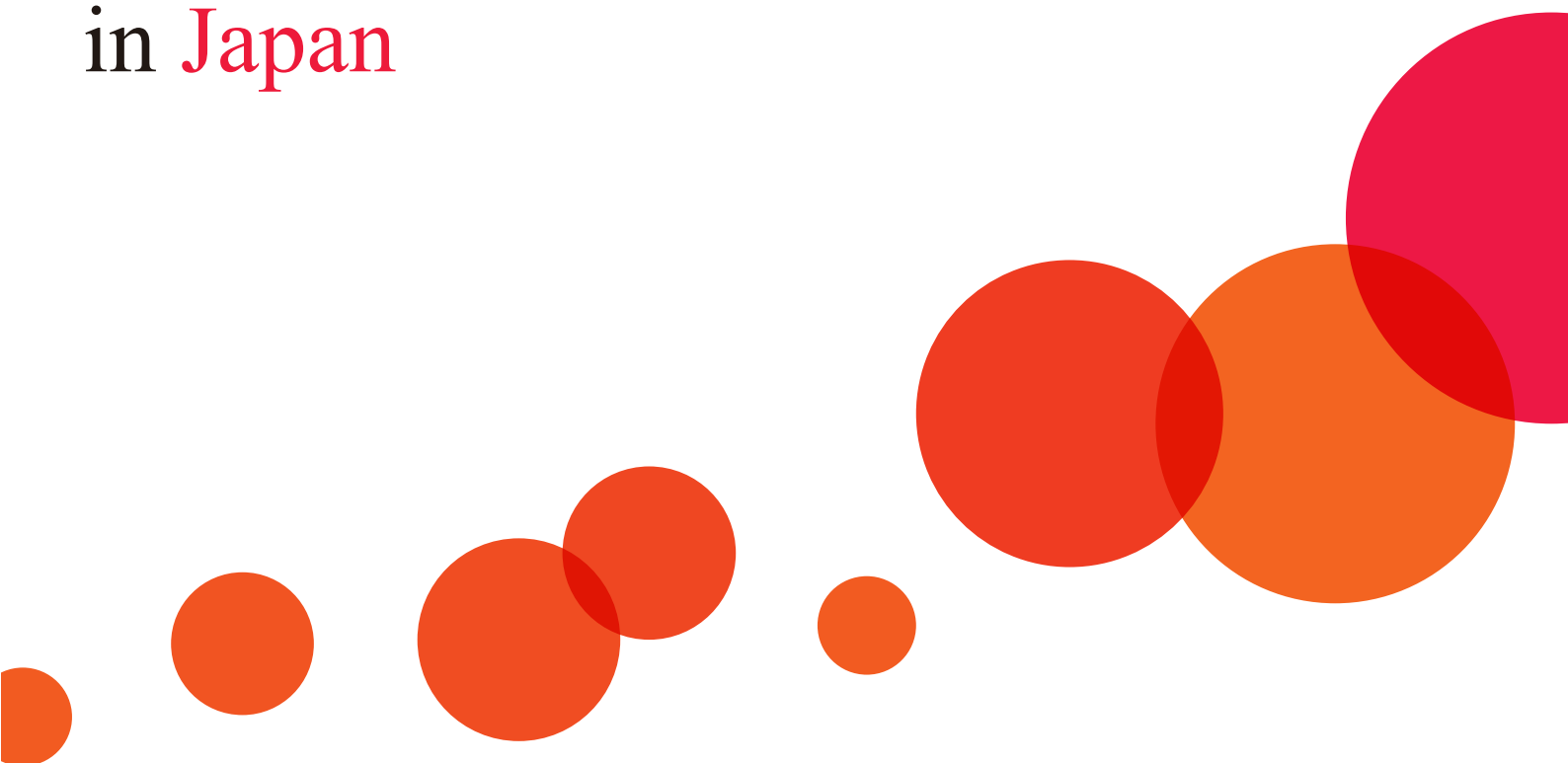


The Social Impact Investment Landscape in **Japan**



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I. Executive Summary

Social impact investment in Japan is nascent, yet growing. Financial institutions, corporate funds, and some intermediaries play a significant role in the development of social investment and its total accumulated size is estimated at US\$247.7m. This figure underwent significant increase in the past 2-3 years due to the heightened interest in social impact investment from the private sector after the triple disaster in March 2011.

Traditionally, delivery of social services in Japan has been led by the government, augmented by various forms of mutual support at community levels. Yet, with the emergence of nonprofits and social enterprises, Japanese society is changing.

An estimated US \$16 trillion in individual financial assets and the presence of large Japanese firms with strong social missions demonstrate the huge potential of social investment. This is important in the context of the rapidly ageing society and increasing fiscal deficits, as the Japanese public understands the need to transition out of predominantly government-led services. Therefore, social impact investment presents a tremendous opportunity for Japanese society if it can be supported by positive legal and regulatory frameworks.

Key stakeholders

- **Government-affiliated financial institutions** provide substantial amount of loans to nonprofits
- **Corporations** play a significant role in the development of both philanthropy and social investment.
- Numerous **social enterprise accelerators** are helping create a pipeline of investment-ready ventures grow from seed to growth stage.

Opportunities

- **Increasing gaps in provision of social services** (aging society, youth issue, local community issues etc), combined with the government's financial deficit, mean a bigger role for nonprofits and social enterprises to deliver services.
- Keen interests in developing the **disaster-affected areas of Northeast Japan** by private sector investors and donors. Several pioneer funds have emerged after the earthquake and raised profile of social investment
- The bilateral aid agency, **Japan International Cooperation Agency (JICA)**, is showing interest in entering impact investing. This could be a driving force in cross-border investment.

Challenges

- **Lack of an integrated policy and regulatory framework** to accelerate social innovation
- **Underdeveloped and fragmented non-profit and social enterprise sectors**, struggling to reach scale
- **Lack of long-term, performance-oriented financial and managerial support**
- **Lack of social impact measurement** by both traditional financiers and implementing bodies
- **Slow transition of foundations** from traditional grant-making to strategic and impact orientation.
- **Low visibility of high net worth individuals** or family offices participating in social investment
- **Low awareness** of social investment at large

Given the key stakeholders involved and the opportunities and challenges faced by the Japanese social impact investment area, the Japan National Advisory Board proposes a comprehensive set of recommendations targeting policy-makers and practitioners:

Policy makers

- **Establish legal entities or certification systems for social enterprises** learning from other G8 countries' examples like the community interest company (CIC), low-profit limited liability corp. (L3C), and benefit corporation.
- **Create dormant account legislation** similar to the UK Big Society Capital that allocates a part of the assets for social investment.
- Establish standards and guidelines of **social impact measurement** and reporting.
- Establish incentives for **foundations to allocate** a part of their endowment to impact investment.
- **Initiate examples of public-private-nonprofit partnerships** including major business associations that induces private sector investment and leverages government funding.
- Demonstrate how corporations engaged in **BOP/inclusive business can utilize social investments** to promote their lines of business and explore how JICA can support these efforts.

Practitioners

- Create and promote more **variety of financial instruments** targeting middle to upper-middle income segments.
- Develop and implement schemes involving **social impact bonds**.
- Consolidate lessons learned from government-funded social investment practices in **disaster-affected areas in Northeast Japan**.
- Provide a **comprehensive set of financial and managerial support** for nonprofits and social enterprises particularly to scale up effective models.

II. About the Japan National Advisory Board

At the G8 meeting in June 2013, the G8 Social Impact Investment Taskforce was launched to catalyze the global development of the social impact investment market. Prepared for the G8 Social Impact Investment Taskforce, this report aims to capture the social impact investment landscape in Japan.

This report not only consolidates the presentations delivered by the Japan representatives at the fourth taskforce meeting held in Paris in April 2014 and the fifth taskforce meeting held in London in June 2014, but also contains additional details and updated information.

This report is published by the Japan National Advisory Board, which was formed as per the guidelines of the G8 Social Impact Investment Taskforce. Driven by the aim to highlight key areas of focus for Japanese policymakers and support the growth of social impact investment in the country, the Advisory Board consists of the following members:

Chair

- Dr. Hiroshi Komiyama, Chairman, Mitsubishi Research Institute; President Emeritus, University of Tokyo

Committee Members:

- Yoshiyuki Nojima, General Manager, CSR and Environmental Affairs Department, Mitsubishi Corporation.
- Ken Shibusawa, Chairman, Commons Asset Management; Board of Directors, Eiichi Shibusawa Memorial Foundation; Director, Keizai Doyukai (Japan Association of Corporate Executives)
- Tomoya Shiraiishi, Chairman, Social Investment Partners
- Dr. Junichi Yamada, Senior Special Advisor, Japan International Cooperation Agency
- Masataka Uo, Founder and CEO, Japan Fundraising Association
- Shuichi Ono, Executive Director, Nippon Foundation

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III. Introduction

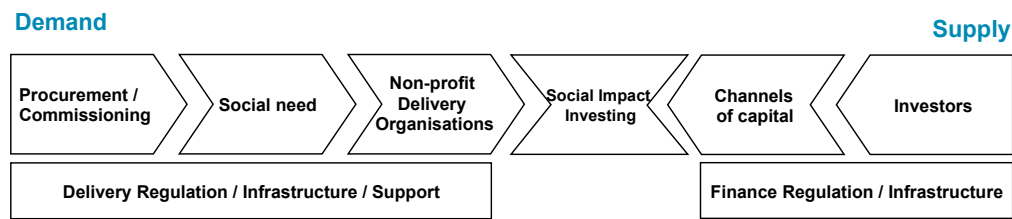
Social impact investment in Japan is nascent, yet growing. Given the market size, the legal and regulatory frameworks in place, and the surrounding infrastructure, Japan's social impact investment can be placed in the 'uncoordinated innovation' phase in the four phases of industry evolution conceptualized by the Monitor Institute. Japan is making progress in the right direction towards marketplace building and deriving benefits from the marketplace.

Figure 1: Four Phases of Industry Evolution [Adapted from the Monitor Institute 2009¹]



This report's structure begins with the 'demand side' of the impact investment equation, followed by the 'supply side', concluding with case studies and recommendations for policy makers and practitioners. Each block in the following diagram represents a chapter.

Figure 2: Demand and supply components of impact investment [Adapted from the 'Template for Mapping Impact Investment Eco-systems']



All monetary figures in this report are expressed in US dollars, at an exchange rate of US\$1 = 100 Japanese yen for simplicity sake.

¹ Freireich & Fulton 2009, Investing for Social & Environmental Impact: A design for catalyzing an emerging industry, Monitor Institute.

IV. Demand

IV.A. Procurement and Commissioning

The government plays a central role in service delivery both at the national and local administrative levels in Japan.

Encouraging signs of changes, however, have been observed in the recent past. For example, legal reforms regarding the Designated Administrator System came into effect in 2003 giving management responsibilities of public facilities such as community centers, libraries, sports facilities, and public parks to private entities including civil society organizations. Designated administration differs from outsourcing from a legal perspective since the former involves a designated administrator providing services on behalf of the government, while the latter refers to services contracted out to a separate party. Regardless, both mechanisms enable private entities to deliver services in exchange for revenue paid by the government.

Achievement to date:

- In the first ten years (2003-2012), the management of more than 73,000 facilities in the country were outsourced to private entities under the law, while 48% of these contracts were signed with non-profit and other public entities. [Ministry of Internal Affairs and Communication 2012²]
- In terms of monetary value, these service delivery contracts totaled more than US\$70 billion in 2013.[ibid]

The government perspective:

- In the Japanese context, commissioning to private entities is considered a cost reduction measure from the government perspective. Non-profits are seen as low cost service providers. Thus, in many situations, nonprofits' financial bids become the major criterion for decision making by government agencies.
- A small portion of these government-commissioned contracts have performance-based incentives built in them. But, the vast majority of them are fixed price with only output-level measurement. As such, understanding of, let alone estimating, value-for-money or social impact is still very nascent.

The non-profit and social enterprise perspective:

- These government-commissioned contracts have generated a new source of programmatic revenue for non-profit organizations and social enterprises alike. In 2012, for instance, 16.7% of total revenue of non-profit organizations was derived from government resources. [Cabinet Office 2013³]
- The budgets of these contracts, however, are mainly program funding which covers very limited administrative overhead. This restrictive nature limits the extent of capacity building of community-based organizations that provide services on behalf of the government. As a result, non-profits face pressure to find alternative sources of income to maintain its operation. The idea of full-cost recovery in these government contracts is under discussion.

IV.B. Social Need

The ageing Japanese society

Similar to those of other developed countries, Japan's social challenges including the ageing population, disabilities (including physical and mental), deteriorating educational levels, smaller nuclear families, rigid criminal justice system, increasing unemployment, non-communicable diseases related to unhealthy lifestyle, etc. Among these, the most critical issue facing Japanese society is the ageing population, which is considered the fastest in speed in the world. Extrapolating from current trends, it is estimated that, by 2050, one in three people will be over 65 years old.

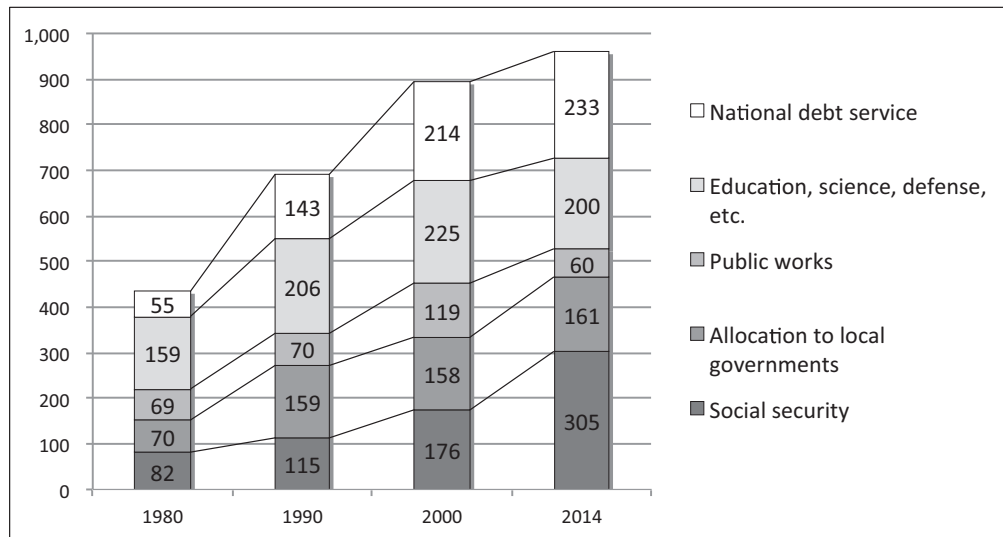
² Ministry of Internal Affairs and Communication 2012 http://www.soumu.go.jp/main_content/000189434.pdf

³ Cabinet Office 2013 https://www.npo-homepage.go.jp/pdf/kihon/kihon_11.pdf

Social security expenditures

Changes in government expenditure over time reflect this harsh reality. As Figure 3 demonstrates, the increase in social security related expenditures, which includes elderly care, healthcare, and unemployment insurance, is stark both in terms of absolute value and share of total expenditure. The recent emergence of income inequality in Japanese society serves as additional pressure to social security spending, given the economic safety net provided to the poor and unemployed at levels similar to European countries.

Figure 3: Japanese government expenditure by sector in US\$ billion [Ministry of Finance 2013⁴]



An opportunity for social impact investment

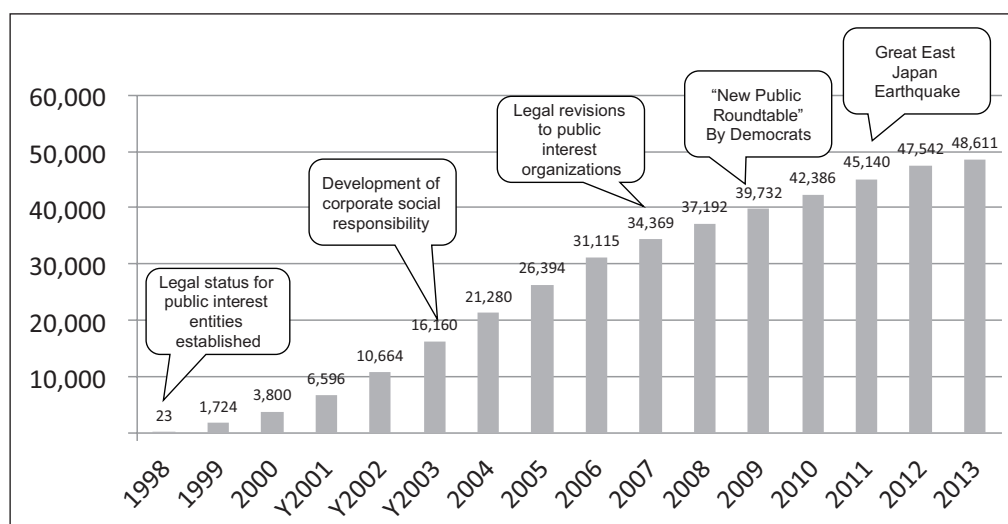
From a social impact investment perspective, the mushrooming social security expenditures present an opportunity. The government is struggling financially and capacity-wise to deliver the necessary social services as demand increases. In this context, value-for-money proposals including service delivery by nonprofit and social enterprises could create a win-win-win solution for the government, service delivery organizations, and service beneficiaries. Arguably, this may be the only solution to the unprecedented challenge the Japanese society currently faces.

IV.C. Non-profit delivery organizations

Birth of non-profit organizations

The legality of non-profit organizations is relatively new in Japan. It wasn't until 1998 – three years after the devastating Great Hanshin Earthquake (also referred to as the Kobe Earthquake) that claimed more than 6,000 lives – when the government established a legal status for public interest entities. The Kobe disaster demonstrated the government's ineffectiveness in providing efficient disaster response and thus resulted in the emergence of a stronger civil society to deliver to unmet social needs. The number of civil society organizations has been steadily increasing since then, as Figure 4 demonstrates.

⁴ Ministry of Finance 2013 <http://www.mof.go.jp/english/budget/budget/fy2014/02.pdf>

Figure 4: Number of registered nonprofit organizations since 1998 [Cabinet Office 2014 ⁵]

Emergence of CSR

There are several other important developments in non-profit delivery organizations in the past 15 years. (See the section below ‘III.D. Delivery regulation, infrastructure, and support’ for explanation of legal and political reforms]

The practice of corporate social responsibility became a norm around the turn of the millennium, and 2003 was known as the ‘Year of Corporate Social Responsibility’ in Japan. Many of the biggest corporate groups including Sony, Panasonic, Unicharm, Canon, and Ricoh established CSR divisions directly under senior management. The emergence of robust CSR contributed to greater financial resources and capacity building services for nonprofit entities through corporate philanthropy and partnerships.

The Great East Japan Earthquake

At 2:46pm March 11, 2011, a catastrophic earthquake shook the Japanese eastern coast that resulted in 15,000 fatalities and the ongoing nuclear problem. Similar to how the Kobe Earthquake forced the emergence of civil society, the year of 2011 became another turning point for Japanese nonprofits as well as impact investing. As described in more detail in the following sections, many of the new investors came into the market in and after 2011. Charitable donation for earthquake relief and recovery was estimated at US\$6 billion, which represents more than half of the annual charitable giving in 2010.

Variety of civil society actors

While the legitimacy of civil society organizations in Japan has been strengthened over the past 15 years, many types of legal entities exist in the sector, without a single definition of non-profit organizations. The common denominator of all these public interest entities is that they enjoy lower taxation and offer tax deductions to donors. Figure 5 summarizes the main types of organizations and their characteristics.

⁵ Cabinet Office 2014 https://www.npo-homepage.go.jp/about/npodata/kihon_1.html

Figure 5: Types and characteristics of organizations in Japan

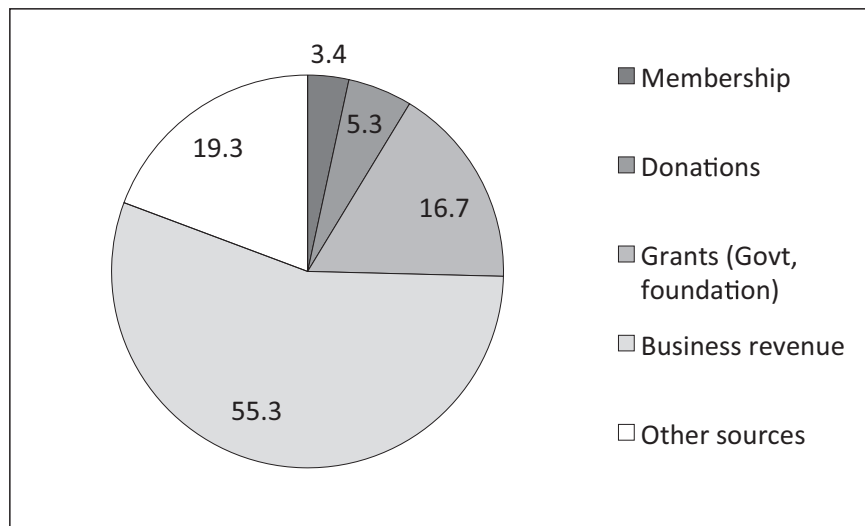
Type of organization	Characteristics
Non-profit organizations	<ul style="list-style-type: none"> • Legal registration set up in 1998 • More than 48,000 organizations as of Dec 2013 • Given to certified non-profits that have passed a public support test. Donations are eligible for tax deductions. (Revenue sources described below)
Cooperatives	<ul style="list-style-type: none"> • 17 different laws define cooperatives in different fields of industry, such as agriculture, fishery, forestry, consumers, credit or small businesses • Reduced corporate tax rate apply to cooperatives • More than 36,000 registered cooperatives exist (Cabinet Office 2012⁶)
Social welfare organizations	<ul style="list-style-type: none"> • 19,000 social welfare organization registered as of 2013 (Ministry of Health, Labour, and Welfare) • Provide services in medical services, elderly care, and handicapped care services.
Education organizations	<ul style="list-style-type: none"> • 8,000 educational organizations registered as of 2013 • Provide educational services from elementary level to higher levels
Associations/ Foundations	<ul style="list-style-type: none"> • A total of 41,000 associations and foundations registered • 8,200 entities are certified that can receive tax benefits
<p><i>The following legal entities do not exist in Japan: Charitable service providers, Development Trust, Mutual/Public Service Spin-out, Leisure Trust, Non-profit(maximizing) trading companies</i></p>	

Revenue sources of nonprofits

In 2013, the Cabinet Office conducted a survey regarding revenue sources among 11,881 nonprofits out of the total 48,000.⁷ Findings reveal that the majority of nonprofits' revenue (55.3%) came from their own businesses or income generation activities. Yet, this figure needs to be interpreted with an understanding that it includes long-term care insurance (kaigo hoken) which is the biggest revenue source for many healthcare and social welfare organizations.⁸ Thus, the large share of 'business' revenue in Figure 6 does not necessarily mean that nonprofits in Japan operate like social enterprises with robust business models. There is insufficient granular data to make such conclusions.

Apart from business revenues, government and foundation grants constituted 16.7%, while donations represented 5.3% in the Cabinet Office survey.

Figure 6: Revenue source of nonprofit organizations [Cabinet Office 2013⁹]



⁶ Cabinet Office 2012 <http://www.gov-online.go.jp/topics/kyodokumiai/>

⁷ Cabinet Office 2013 https://www.npo-homepage.go.jp/pdf/kihon/kihon_11.pdf

⁸ Of the 197 healthcare and social welfare organizations surveyed by the Cabinet Office in 2010, 56.7% of their business revenue came from long-term care insurance. Cabinet Office 2010, <https://www.npo-homepage.go.jp/pdf/h21kihonchousa-4.pdf>

⁹ Cabinet Office 2013 https://www.npo-homepage.go.jp/pdf/kihon/kihon_11.pdf

IV.D. Delivery regulation, infrastructure, and support

Legal and political reforms

In 2007, a legal amendment to the corporate law came into effect that removed the requirement of minimum capital and lowered barriers for non-profits with revenue generation models to be set up as businesses.

In 2009, the government initiated a series of discussions on public service reform called 'New Public Commons' which sought to bring more non-profit organizations into the domain of social services. A series of policies was implemented with the most prominent being a US\$210m social innovation fund to provide financing for 800 social entrepreneurs over 2 years. Since then the concepts of social entrepreneurship and innovation have become increasingly prominent in Japanese society.

Lack of legal status for social enterprises

Japan has not established any specific legal status for social enterprises like the equivalent of community interest company (CIC) in the UK, the low-profit limited liability company (L3C) in the US, or benefit corporations in certain states in the US. Nor is a private certification like 'B Corp' available in Japan.

Expansion of capacity building and professional services

With the growth of the nonprofit sector and recent emergence of impact investing, various services catering to the 'professionalization' of their work have also been launched. These services can be grouped into a few categories.

- **Leadership development:** Institute for Strategic Leadership, Ashoka Japan, and Entrepreneurial Training for Innovative Communities are good examples of entities supporting the development of social entrepreneurs in Japan. While the target audience of each entity differs slightly, they all strive to train the next generation of leaders nonprofits and social enterprises
- **Accelerators/incubators:** Similar to the leadership development entities above, some organizations serve as accelerators and incubators of social initiatives. These include HUB Tokyo (a part of the Impact Hub global network), Social Venture Partners Tokyo (the Japanese chapter of Social Venture Partners International), and the Osaka-based nonprofit called the Edge.
- **Best-practice sharing networks:** The Asian Venture Philanthropy Network and Social Business Network serve to connect people and share best practices to stimulate growth of the nonprofit and impact investing sectors.
- **Impact measurement platforms:** As part of the global Social Return on Investment (SROI) network, the SROI Network Japan provides training and resources in the efforts to quantify social impact.
- **Corporate pro-bono services:** Service Grant Japan is a match-making platform connecting pro-bono workers and non-profits and has developed about 100 projects to date. At the individual corporate level, firms like Bain & Company, Panasonic, and NEC, as well as legal groups including Trustlaw and BLP-Network, have their own pro-bono programs. For instance, Panasonic has a roster of 88 volunteers who provide free services in marketing, communication, sales, etc. to nonprofits, particularly those that receive grants from the Panasonic NPO Support Fund.

These various services combined create an ecosystem that transforms innovative ideas into mission-driven organizations and cultivate them into effective non-profits and social enterprises.

V. Supply

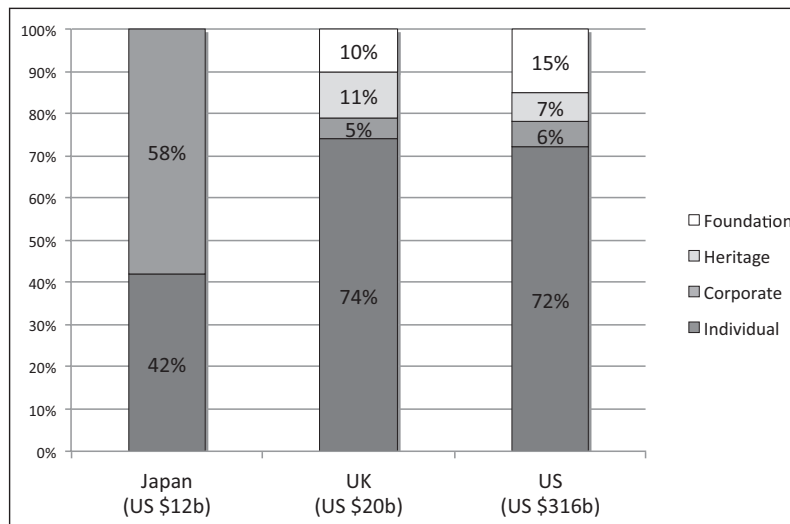
V.A. Donors and Investors

Unique distribution of charitable resources

Charitable resources in Japan are limited compared to other G8 countries like the US and UK. Despite the absolute size, they have been growing fast, almost doubling in the past five years from US\$7 billion in 2008 to \$12 billion in 2012 due to a multitude of factors including the greater role of civil society, the 2011 earthquake, etc. [JFRA 2013¹⁰]

The most striking characteristic of the Japanese charitable market is the dominance of corporate giving, which constitutes 58% of the overall market compared to 5% and 6% in the UK and US respectively. The flip side of story is the weaker consciousness among individuals to donate to charitable causes. This can be attributed to differences in religious donations, culture of giving, role of civil society, etc.

Figure 7, Comparison of charitable markets in Japan, UK, and US by sources [Japan Fundraising Association 2013¹¹, Giving USA 2012¹², National Council for Voluntary Organisations 2012¹³]



Corporate Giving

Corporate giving has increased significantly in the recent years from US\$5.5b in 2009 to US\$7.2b in 2011. [FRA 2013¹⁴] This figure in 2011 constitutes 2.1% of the total corporate income and the companies that give represent 20% of all registered firms.

Japanese corporations not only make substantial contribution to philanthropy in Japan, but also have exercised leadership in the area of impact investment in the country. Many companies support social initiatives through their CSR programs and/or contribute principal investment to develop its core business with a strong sense of social mission. Mitsubishi Corporation, Benesse Corporation, and Toyota Tsusho, in particular, have established sizeable investment funds in the past two years that provides equity finance to social enterprises aiming to achieve both financial and social returns. These cases are explained in further detail in the section below 'VI. Japanese case studies of social impact investment'.

¹⁰ Japan Fundraising Association 2013, Giving Japan 2012

¹¹ Ibid

¹² Giving USA 2012, The Annual Report on Philanthropy for the Year 2011

¹³ National Council for Voluntary Organisations 2012, UK Giving 2012: An Overview of charitable giving in the UK, 2011/12

¹⁴ Japan Fundraising Association 2013, Giving Japan 2012

Individual Giving

Since the 1990s, individuals have become increasingly willing to help others, but the biggest catalyst was the Great East Japan Earthquake in 2011. The volume of individual giving in Japan had been fluctuating around the US\$5b level, but in 2011 an additional US\$5b was given for disaster relief on top of the US\$5.2b for other donations. It is estimated that 77% of the population above 15 years of age made donations that year. The total volume of individual giving was down to US\$7.0b in 2012, but this still shows an increase from that of 2010. This increase is partly due to the prevalence of internet (79% of Japanese population over 6 years of age has access to internet) and social network services like Facebook and Twitter which are often used for charity promotions. The internet has made it easier to donate (through crowdfunding and credit card payments) than traditional wire transfers. A third of individual giving in Japan is religion-related, and only 7% of all individual donors give away more than US\$500 a year. [JFRA 2013¹⁵]

In terms of high net worth individuals, while there are 1.8 million millionaires in Japan (which is the second largest in the world following the U.S.), there are only 30 billionaires or so.¹⁶ The following three individuals are prominent figures who have demonstrated strong commitments to philanthropy.

- Kazuo Inamori: Founder of Kyocera, who established the Inamori Foundation and the Kyoto Prize
- Soichiro Fukutake: Chairman of Benesse Holdings, who established the Fukutake Foundation.
- Masayoshi Son: Founder and CEO of Softbank, who personally donated US\$100m to the earthquake relief efforts in 2011. [Softbank 2011¹⁷]

Apart from these individuals, there aren't many Japanese equivalents of Bill Gates, Warren Buffet, and Pierre Omidyar who have made life commitments to philanthropy. For example, not a single Japanese name appears in the Giving Pledge's list of 127 billionaires or former billionaires who have committed to giving more than half of their wealth to philanthropy or charitable causes either during their lifetime or in their will.¹⁸

Foundation Giving

The concept of grant-making foundations is not clearly defined in Japan. Article 34 of the Civil Code refers to different functions of incorporated foundations (zaidan hojin) including grant-making as well as project implementation (e.g. conducting research and operating facilities like museums). Many of the incorporated foundations are engaged in both types of activities.¹⁹

Among the 820 incorporated foundations surveyed in 2013 by the Japan Foundation Center, most entities had a total asset of less than US\$30m, while 60 foundations owned more than US\$100m in asset. These 60 large foundations together held approximately US\$15b. For comparison sake, this represents a half of the total asset of Bill & Melinda Gates Foundation (US\$30b) and 50% more than the Ford Foundation (US\$10b), the second largest foundation in the US.

¹⁵ Japan Fundraising Association 2013, Giving Japan 2012

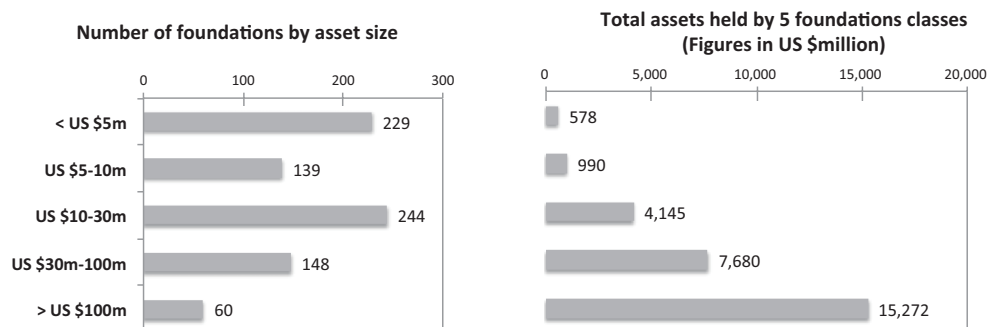
¹⁶ Wikipedia 2014 http://en.wikipedia.org/wiki/List_of_Japanese_by_net_worth

¹⁷ Softbank 2011 http://www.softbank.jp/en/corp/news/press/sb/2011/20110403_01/

¹⁸ Giving Pledge 2014 <http://givingpledge.org/>

¹⁹ Japanese Foundation Center 2014. <http://www.jfc.or.jp/bunseki/research2013.pdf>

Figure 8: Number of foundations by asset size and their combined assets [Japan Foundation Center 2014²⁰]



By the 820 foundations, the total value disbursed as grants in 2013 amounted to US\$660 million, which constitutes a mere 0.5% of the entire charitable market in Japan (US\$12b). The majority (75%) of the 820 foundations gave out less than US\$500k a year, while only about 2% gives out more than US\$5m. Despite the limited financial power of Japanese foundations, some have begun to consider approaches different from traditional grant making. For instance, the Nippon Foundation has launched initiatives in social impact investment with the hope to achieve more direct outcomes.

Heritage Giving

The nonprofit legal reforms in 2011 also resulted in more incentives for heritage giving. Today, all bequests to certified nonprofits are completely tax exempt, whereas inheritance tax rate for, say, US\$1m is 30% and >US\$3m is 50%.²¹ Despite this incentive of heritage giving, many have yet take advantage of it. The total amount of heritage giving in 2009 reached US\$74m. [JFRA 2013²²]

The number of Japanese elderly people leaving a will has improved by ten fold in the past few decades, but it only represents 10% of all deaths. [JFRA 2013²³] In comparison, 40-60% of the American population writes a will before death.

Approximately 60% of the total financial asset in Japan is owned by people over 60 years of age, which is estimated to be about US\$8.9 trillion. Of this huge sum, US\$400-500b is inherited annually, posing a tremendous opportunity for giving to nonprofits and social enterprises.

Nonprofit lending by financial institutions

Apart from grants and donations described above, a number of financial institutions are committed to providing loans with relatively low interest rates to nonprofits:

- Japan Finance Corporation (JFC)** is a public corporation wholly owned by the Japanese government, established in October 2008, as a result of a merger of four policy-based financing institutions. JFC's loans to nonprofits have been steadily increasing, tripling in number and quadrupling in amount in the past five years. The government-owned institution has loaned a cumulative total of US \$50m as of 2012 to 640 nonprofits, with each loan up to US\$720k. [JFC 2013²⁴]

²⁰ Ibid

²¹ National Tax Agency 2013 <https://www.nta.go.jp/taxanswer/sozoku/4155.htm>

²² Japan Fundraising Association 2013, Giving Japan 2012

²³ Ibid

²⁴ Japan Finance Corporation 2013 <https://www.jfc.go.jp/n/release/pdf/topics1305010a.pdf>

- The National Association of Labour Banks is the umbrella organization for **13 labor banks** at the regional and prefectural levels. These labor banks provide nonprofits with loans of approximately US\$50k without collateral and in the range of US\$300k-500k with collateral, at an interest rate between 1-4% per annum. The labor banks have given out a cumulative total of US\$34.7m to date. [National Association of Labour Banks 2010²⁵]
- In addition, dozens of **credit unions (*shinkin* and *shinkumi*) and smaller banks** at the prefectural and more local levels provide similar loans to nonprofits. A table created by the Cabinet Office lists 30 such loan schemes, mostly around US\$50k in size at an interest rate of 1-3% per annum. [Cabinet Office²⁶] The cumulative total disbursed through these schemes has not been accounted, thus an important next step is to conduct an estimation of this figure.

Government grants and contracts

In addition to loans provided by financial institutions, nonprofits and social enterprises are eligible to apply for funding from relevant government ministries. However, the total sum of grants or contracts disbursed by the different ministries is unavailable.

Organizations can search for various public schemes including grants as well as competitive bids for outsourcing/designated administration contracts on government websites and fee-based list serves, but there is no single central source of information.

Below are two examples of government-related grants and contracts:

- The bilateral aid agency, **Japan International Cooperation Agency**, pools donations from civil society and provides small-scale grants to international development organizations in the areas of poverty alleviation, education, microcredit, environmental conservation, etc. A total of US\$400k has been disbursed to more than 50 organizations to date.
- **In response to the Great East Japan Earthquake** in 2011, the government has poured sizeable financial resources to nonprofit organizations and social enterprises to undertake recovery and reconstruction efforts. A total of roughly US\$10 billion has been provided in the past four years through 30 programs involving 7 ministries, the Cabinet Office, and the newly established Reconstruction Agency. [Reconstruction Agency 2014²⁷]

²⁵ National Association of Labour Banks 2010 <http://www.mlit.go.jp/common/000127524.pdf>

²⁶ Cabinet Office https://www.npo-homepage.go.jp/pdf/report33_6_08.pdf

²⁷ Reconstruction Agency 2014 http://www.reconstruction.go.jp/topics/main-cat4/sub-cat4-2/20140217_npoyosan.pdf

V.B. Channels of capital

While the majority of the aforementioned charitable resources are given directly to nonprofit organizations and social enterprises, some portion is channeled through various types of social financial intermediaries.

Social banks

The Japanese equivalent of social banks and community development fund institutions are known as 'NPO Banks'. NPO Banks are not technically banks and cannot accept deposits; they are not-for-profit entities that solicit financing from individuals for social causes.²⁸ The history of NPO Banks in Japan dates back to the mid 1990s when the first initiative, the Mirai Bank Business Partnership, was established in 1994. The number of NPO banks has grown to 13 to date. The accumulated lending of these banks is estimated at the US\$27m level. [Japan NPO-Bank Network 2013²⁹]

Social investment fund managers

Music Securities is the biggest social investment fund manager in Japan. The company runs a micro investment finance platform called Securite that connects individual and corporate investors with social enterprises. Investment size starts at US\$100, and target social enterprises are involved in all kinds of sectors ranging from agriculture, tourism, energy, sports, to poverty alleviation in developing countries. Securite has raised US\$44m to date, channelling funds to 169 businesses.

Some of the main social investment intermediaries in Japan are involved in venture philanthropy, a concept introduced to the country by Social Venture Partners Tokyo, which was established in 2003, a few years after the original Seattle chapter's founding in 1997. In 2012, private equity and corporate finance professionals founded Social Investment Partners (SIP) as a full-scale venture philanthropy organization to provide mid-long term financial and managerial support to selected social purpose organizations. In 2013, the Japan Venture Philanthropy Fund was established at Nippon Foundation by joint efforts with SIP, creating a precedent for cooperation between a private foundation and business professionals.

Some other funds play important roles in social investment with the key ones including the JCIE Seedcap Program, and Panasonic's NPO Support Fund. In addition, a few social investment funds have been established in the past few years mainly as part of the recovery efforts after the 2011 earthquake and disaster, but also in the area of international development. Meaning 'dawn' in Khmer, ARUN is a limited liability company that invests in social entrepreneurs in developing countries based on funding from Japanese individuals and corporate partners. Tohoku Common Benefit Investment Fund and the Tomodachi Funds in Sanriku, Rikuchu, and Minami Soma target social enterprise development in the Northeast region that experienced the most damage by the earthquake and tsunami.

Impact investment bonds

Impact investment bonds are retail-oriented financial instruments offered by firms like Daiwa Securities and others. Since 2008, Daiwa Securities has developed impact investment bonds covering the following sectors, with the investees indicated in parentheses: microfinance (IFC, EBRD), childcare in Latin America (IDB), global warming (World Bank), vaccines (GAVI), water (ADB) agribusiness (Rabobank), and JICA ODA bonds.³⁰

The JICA ODA bonds are efforts to raise funds from the public, specifically individual investors, for JICA's ODA loans and has been particularly appealing to the elderly segments, despite the low interest rate between 0.1-0.4% per annum.

²⁸ Wikipedia 2014 <http://ja.wikipedia.org/wiki/NPO%E3%83%90%E3%83%B3%E3%82%AF>

²⁹ Japan NPO-Bank Network 2013 http://www.npobank.net/docs/201303_NPObank_Genkyo.pdf

³⁰ Daiwa Securities 2014 <http://www.daiwa.jp/impact/>

JICA has issued five rounds of retail bonds totaling US\$500m, with one particular round attracting 6,000 individual investors.³¹

While impact investment bonds are growing and promising, they are different in nature from the others mentioned above, i.e. the recipients of the investments are overseas entities including governments, multilateral agencies, etc.. Thus, this report does not account investments in this area as part of the overall market size calculation in section 'VI. Japanese examples of social impact investment'.

Crowd-funding platforms

The 2011 earthquake also triggered the rapid expansion of crowd-funding in Japan. Today, more than 28 crowd-funding programs and websites are in operation raising a total of US\$15m combined to date. [Visualizing.info 2012³²] The most popular ones include Justgiving Japan, READYFOR?, and Campfire. But only 6.1% of the Japanese population is aware of the concept of crowd-funding (JFRA 2013³³)

V.C. Finance regulations and infrastructure

Importance of socially responsible investments

The Cabinet Office has an advisory group called the Council on Economic and Fiscal Policy (keizai zaisei shimon kaigi) that is chaired by the Prime Minister and composed of ministers and influential individuals from the private sector. The Council aims to reflect opinions of its members in national level policies. In June 2014, the Council published its key priorities and policies for fiscal year 2014 that included sections on social responsible investments and generating a culture of giving.³⁴ The document calls for socially responsible investments in order to reinvigorate regional and local economies and for the fostering of a culture of giving by relevant ministries to develop the nonprofit and social enterprise sectors. Exactly how these expressed priorities will be demonstrated in practice remains to be seen.

Base-of-the-pyramid business opportunities

Three government agencies – Japan International Cooperation Agency (JICA), Ministry of Economy, Trade and Industry (METI), and Japan External Trade Organization (JETRO) – have exercised leadership in encouraging Japanese companies to target base-of-the-pyramid (BOP) segments in developing and emerging markets. This is an important business opportunity as domestic demand shrinks over time with the declining population.

JICA's Preparatory Survey for BoP Business Promotion was initiated in 2010, with over 80 feasibility studies funded and conducted to date covering a range of sectors including agriculture, energy, water, health, and education.³⁵ The feasibility studies allow Japanese companies to better understand the BOP market opportunities in specific countries and develop products and services which respond to development challenges targeting the poor.. Upon reviewing the funded feasibility studies to date in 2013, JICA identified four major barriers faced by Japanese companies in this area: 1) Holistic support to solidify business models; 2) Information sharing among stakeholders; 3) Social impact measurement; 4) Financing to initiate businesses. With regards to financing, companies struggle to obtain necessary funding internally given the expected return of investment does not seem to be sufficient. As such, JICA is considering contributing funds to a social investment fund that supports BoP and inclusive businesses to achieve the double bottom line in low resource contexts. This could be a driving force in cross-border investment and impact investing.³⁶

³¹ JICA 2014 http://www.jica.go.jp/investor/ir/ku57pq0000r13n2-att/20140120_01_1.pdf

³² Visualizing.info 2012 <http://visualizing.info/article/4255.html>

³³ Japan Fundraising Association 2013, Giving Japan 2012

³⁴ Cabinet Office 2014 http://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/2014/2014_basicpolicies.pdf

³⁵ JICA website http://www.jica.go.jp/activities/schemes/priv_partner/BOP/index.html

³⁶ Wakabayashi 2013 http://www.bop.go.jp/wp-content/uploads/2013/06/130521_seminar05_JICA.pdf

Government support at local levels

The Japanese government has also implemented programs at local levels to accelerate the development of social businesses:

- **Ministry of Economy, Trade, and Industry's (METI's) Environmental Community Business Development Program:** Initiated in 2002, a program that funds up to US\$40k for community-level entities to solve environmental issues through business models in the areas of eco-tourism, use of biomass, recycling, etc.
- **Osaka Prefectural Government's Social Entrepreneur Support Project:** Also launched in 2002, a funding source up to US\$60k for social enterprise intermediaries to provide capacity building and financing to community businesses. The community businesses included child nurseries, elderly care, support for single mothers, disabled people, etc.

Started with these pioneer programs, now different ministries and local governments are running a number of grant programs for non-profit and social businesses.

Tax-deduction benefits

The tax code involving nonprofit donation underwent revisions in 2011, and today Japan boasts ones of the most appealing tax incentives for potential donors to nonprofits. Tax deduction benefits also apply to nonprofits that receive donations, in addition to the donors themselves. It is estimated that about 70% of the population don't know about the recent changes in the tax benefits in 2011. As such, only 9% of all donors claimed tax benefits. [JFRA 2013³⁷]

Lack of integrated policies to support financing social investment

Apart from the few government initiatives above and tax-deduction benefits to financiers of nonprofit activities, Japan lacks legal, policy and regulatory frameworks to accelerate the development of social enterprises and social investment in general.

For example, the idea of using dormant bank account has yet to be realized in Japan. The total value of bank accounts dormant for more than 10 years that could be utilized for nonprofits and social enterprises is estimated around US\$500m.³⁸ Japan could learn from the UK example of the Big Society Capital to allocate a portion of this sum to social investment. In order to realize this, discussion platforms have been formed by civil society as well as politicians: roughly translated to 'National Assembly for Dormant Accounts' by civil society and 'Legislator Caucus for the Promotion of Dormant Account Deposit Utilization' by diet members.³⁹

³⁷ Japan Fundraising Association 2013, Giving Japan 2012

³⁸ 休眠口座国民会議 2014 <http://kyumin.jp/>

³⁹ 休眠口座国民会議と休眠預金活用推進議連

VI. Japanese examples of social impact investment

Overview

As introduced above, financial institutions, private companies, and intermediaries have taken leadership roles in developing the impact investing landscape in Japan. The key funds and players are summarized in the table below depicting a snapshot of the impact investing landscape. Of these impact investors, three are explained in further detail below as case studies.

The Japan National Advisory Board defined the scope of social impact investment based on the discussions that have taken place at the meetings and conferences organized by the G8 Social Impact Investment Taskforce:

- First, social impact investment refers to grants, loans, or investments with a primary objective to create social impact and a secondary objective to generate financial returns.
- Second, the target recipients of social impact investment are social initiatives by private entities (nonprofits, cooperatives, civil society organizations, enterprises, etc.), rather than public projects by government bodies.
- Finally, even if financing schemes target nonprofits, social welfare organizations, cooperatives, etc. as long as the assessment criteria and interest rates are similar to those targeting more traditional commercially oriented companies, then such schemes have been excluded from the table below.

Figure 9: Social impact investing funds by provider and financial instrument

	Donors and Investors				Intermediaries	Total
	Financial institutions	Foundations	Corporations	Government		
Capacity Building Grant			<ul style="list-style-type: none"> • Panasonic NPO Support Fund (US\$2.7m) 		<ul style="list-style-type: none"> • Japan Venture Philanthropy Fund (US\$1.2m*) • Social Venture Partners Tokyo (US\$0.6m) • JCIE Seedcap (US\$0.3m) 	US\$4.8m
Equity			<ul style="list-style-type: none"> • Mitsubishi Corporation Disaster Relief Foundation (US\$ 15m) • Benesse Social Investment Facility (US\$15m*) • Toyota Tsusho Africa Fund (US\$ 15m*) 	<ul style="list-style-type: none"> • Japan International Corporation Agency (US\$ 2m)** 	<ul style="list-style-type: none"> • Music Securities (US\$ 44m) • Tohoku Common Benefit Investment Fund (US\$ 5m*) 	US\$96m
Loan	<ul style="list-style-type: none"> • Japan Finance Corporation (US\$50m) • National Association of Labour Banks (US\$34.7m) • 30 loan schemes for nonprofits by credit unions and regional banks (total amount accounted) 	<ul style="list-style-type: none"> • Nippon Foundation Social Business Initiative (US\$31.2m) • Nippon Foundation Inclusive Finance in Vietnam (US\$0.5m) 			<ul style="list-style-type: none"> • NPO banks (US\$27m) • Tomodachi Funds*** (US\$2.8m) • ARUN (US\$ 0.7m) 	US\$146.9m
Total	US\$84.7m	US\$31.7m	US\$47.7m	US\$2.0m	US\$81.6m	US\$247.7m

* Based on commitment amount instead of actual disbursed

** This refers to JICA's contribution to the First Microfinance Bank in Pakistan.

*** Tomodachi Funds refer to three funds established by PlaNNet Finance Japan, Mercy Corps: and local financial institutions: Sanriku, Rikuchu, and Minami Soma

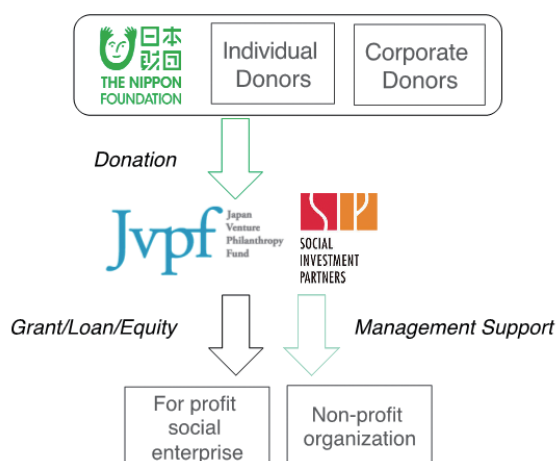
Case 1: Japan Venture Philanthropy Fund

Founded in 2013 at the Nippon Foundation, the Japan Venture Philanthropy Fund (JVPF) is the country's first comprehensive venture philanthropy fund with a current commitment level of US\$1.2m. The fund targets organizations – both social enterprises and nonprofits – focused on the following social issues: 1. Education and youth employment; 2 Childcare and employment of women; 3 Local community development.

JVPF is jointly managed by the Nippon Foundation and Social Investment Partners (SIP). SIP is a full-scale venture philanthropy organization founded in 2012 by private equity and corporate finance professionals. It provides mid-long term financial and managerial support to selected social purpose organizations with the aim to maximize social impact. Professional firms including Clifford Chance, Bain & Company Japan and VOX Global Japan commit to providing pro-bono service to SIP's activities.

Given all the players involved, the establishment of JVPF marks the first partnership between the private foundation and business sectors in Japan.

Figure 10: Conceptual model of Japan Venture Philanthropy Fund

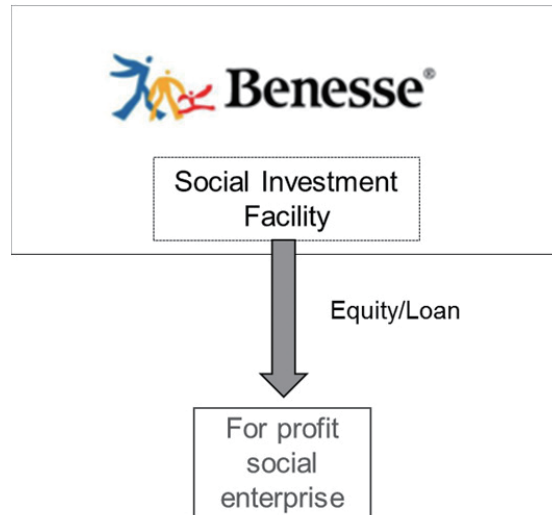


As the conceptual model illustrates, individuals, companies, and the Nippon Foundation donate to the Fund, which in turn is disbursed to social enterprises and nonprofits in the form of grants, loans, or equity. The inaugural grant of US\$200,000 over 3.5yrs was awarded in 2013 to a nonprofit group called After School that aims provide children with safe, enjoyable, and creative after-school experiences.

Case 2: Benesse Social Investment Facility

The largest education company in Japan, Benesse Corporation focuses on correspondence and publishing. In 2013, an impact investment fund called Benesse Social Investment Facility was established as an in-house venture capital fund that invests in Asian social enterprises in the education, childcare, and elderly care sectors.

Figure 11: Conceptual model of Benesse Social Investment Facility

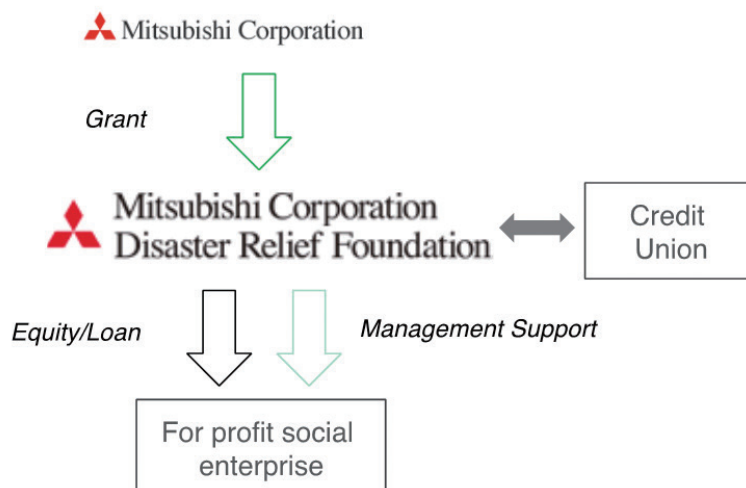


The facility is endowed with US\$15million and made its first equity investment into InOpen Technologies, a computer education startup in India.

Case 3: Mitsubishi Corporation Disaster Relief Foundation

Mitsubishi Corporation Disaster Relief Foundation was established in March 2012, one year after the Great East Japan Earthquake, with the aim to contribute to the economic recovery of the disaster-affected areas. Specifically, the Foundation provides 1) scholarships, 2) grants to community organizations, and 3) support for industry recovery and job creation. The Foundation is fully funded by a major Japanese trading firm, Mitsubishi Corporation, as part of its corporate social responsibility program.

Figure 12: Conceptual model of Mitsubishi Corporation Disaster Relief Foundation's social investment



Equity and loans up to US\$1m are awarded to social enterprises that pass credit assessment tests conducted by local credit unions. The Foundation has invested more than US\$15m in a total of 30 businesses so far.

VII. Recommendations

Based on the current state of the demand and supply sides, as well as current practices of social investing, in Japan, the Japan National Advisory Board proposes the following recommendations in the following areas:

Procurement and commissioning

- Formulate ways to encourage the more progressive government agencies or local governments to **pilot government contracting** to non-profit and social enterprises with **outcome-based performance measurement**. To achieve this, leadership roles need to be taken by the Cabinet Office or the Ministry of Internal Affairs and Communications (MIC), with concrete plans for piloting in several locations across the country.

Delivery regulation, infrastructure, and support

- **Create legal entities for social enterprises** learning from other G8 countries' examples like the community interest company (CIC), low-profit limited liability corporation (L3C), and benefit corporation.
- Establish standards and guidelines of **social impact measurement** and reporting.
- Provide a comprehensive set of **financial and managerial support for nonprofits and social enterprises** particularly to scale up effective models. Such support should include financial and managerial knowhow from the private sector.

Donors and investors

- Organize a series of **public events on social impact investment to raise awareness** of its potential, particularly for donors and investors.
- Collaborate with industry associations to **persuade registered foundations and establish incentives to allocate a part of their endowment** to mission-based investing through a pledge mechanism.
- Conduct research to **estimate the market size of nonprofit loans by credit unions** (*shinkin* and *shinkumi*) and regional banks – an important estimate to understand the country's overall impact investing market. The research should also focus on identifying barriers to scaling up nonprofit loans by these community-oriented financial institutions.
- **Create and promote more financial instruments targeting middle to upper-middle income segments**, based on the initial success observed in impact investment bonds developed by firms like Daiwa Securities. This is important in the context of a lack of ultra high-net-worth individuals and the enormous total asset held by people above 65 years old in Japan.
- **Promote transparent disclosure by pension funds**, including the National Pension Fund with assets of more than US\$1 trillion, and foundations regarding socially responsible investment practices.

Channels of capital

- Cooperate with major business associations to **promote public-private-nonprofit partnerships** that induce private sector investment and leverages government funding.

Finance regulation and infrastructure

- **Provide tax incentives** for social investment based on legal status of social enterprises.
- **Create dormant account legislation** similar to the UK Big Society Capital that allocates a part of the assets for social investment. The total value of bank accounts dormant for more than 10 years that could be utilized for nonprofits and social enterprises is estimated around US\$500m. The usage of these assets should include funding to selected venture philanthropy and impact funds to maximize social return.
- Engage authoritative organizations such as business associations to encourage **networking and knowledge sharing** through conferences, seminars, and research on how impact investing can complement the core businesses of corporations.

- Work with JICA on how corporations engaged in **BOP/inclusive business can utilize social investments** to promote their lines of business and how JICA can support these efforts.

Innovations in social impact investment

Development of social impact bonds

- Implement a pilot pay-for-success project and social impact bond scheme.
- Clarify the legal and regulatory obstacles and necessary solutions to create social impact bonds with local authorities.
- Collaborate with the Ministry of Internal Affairs and Communication (MIC) and other relevant ministries to create a transparent database of public service costs to compare effectiveness of regular projects and social impact bond projects.
- Create a social impact bond guidebook and templates to scale out best practices and replicate pilot projects in other parts of Japan or develop more bonds around other social/environmental issues.

Social investment in earthquake-affected areas in Northeast Japan

- Consolidate lessons learned from government-funded social investment practices in disaster-affected areas in order to share them globally and institute best practices to further promote social investment.
- Cooperate with the recently established Reconstruction Agency and other relevant ministries to set up an impact-readiness-fund and build capacity of local intermediaries to identify more social innovators and support them to scale.

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