

2020

The Current State and Challenges of Impact Investing in Japan

FY2020 Survey

March 31, 2021

The Japan National Advisory Board, The Global Steering Group for Impact Investment
(GSG-NAB Japan)

About This Report

Report authors and survey team

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About GSG-NAB Japan

The GSG is a global network, with 33 nations plus the EU as members, which aims at promoting impact investing in partnership with financial institutions, governments, international organizations, businesses, and other entities around the world. GSG-NAB Japan was established in 2014 as GSG's national advisory board in Japan. It contributes to the development of the market and ecosystem for impact investing in collaboration with practitioners and experts in diverse fields, including financial, business, social, and academic institutions. GSG-NAB Japan's activities revolve around three pillars of: research and publication, awareness-raising, and networking.

Positioning of this report

This report summarizes the current state of impact investing in Japan for the purpose of promoting it domestically. It has been published under the supervision of GSG-NAB Japan every year since 2016, reporting the current state of impact investing in the country both online and in print.

The main part of the report presents the impact investment balance in Japan¹ based on Questionnaire Survey results. It also provides examples of institutions engaged in impact investing, along with trends in the field in Japan as derived from the questionnaire.

Acknowledgements

We would like to express our appreciation to everyone who cooperated in the questionnaire, interviews and the preparation of this report, particularly to K-three Inc., which participated as an advisor, and to Researchworks Corporation, the company that administered the collection of responses.

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¹ Please note that what is presented is based only on the results of the Questionnaire Survey; the figures are not strict market estimates.

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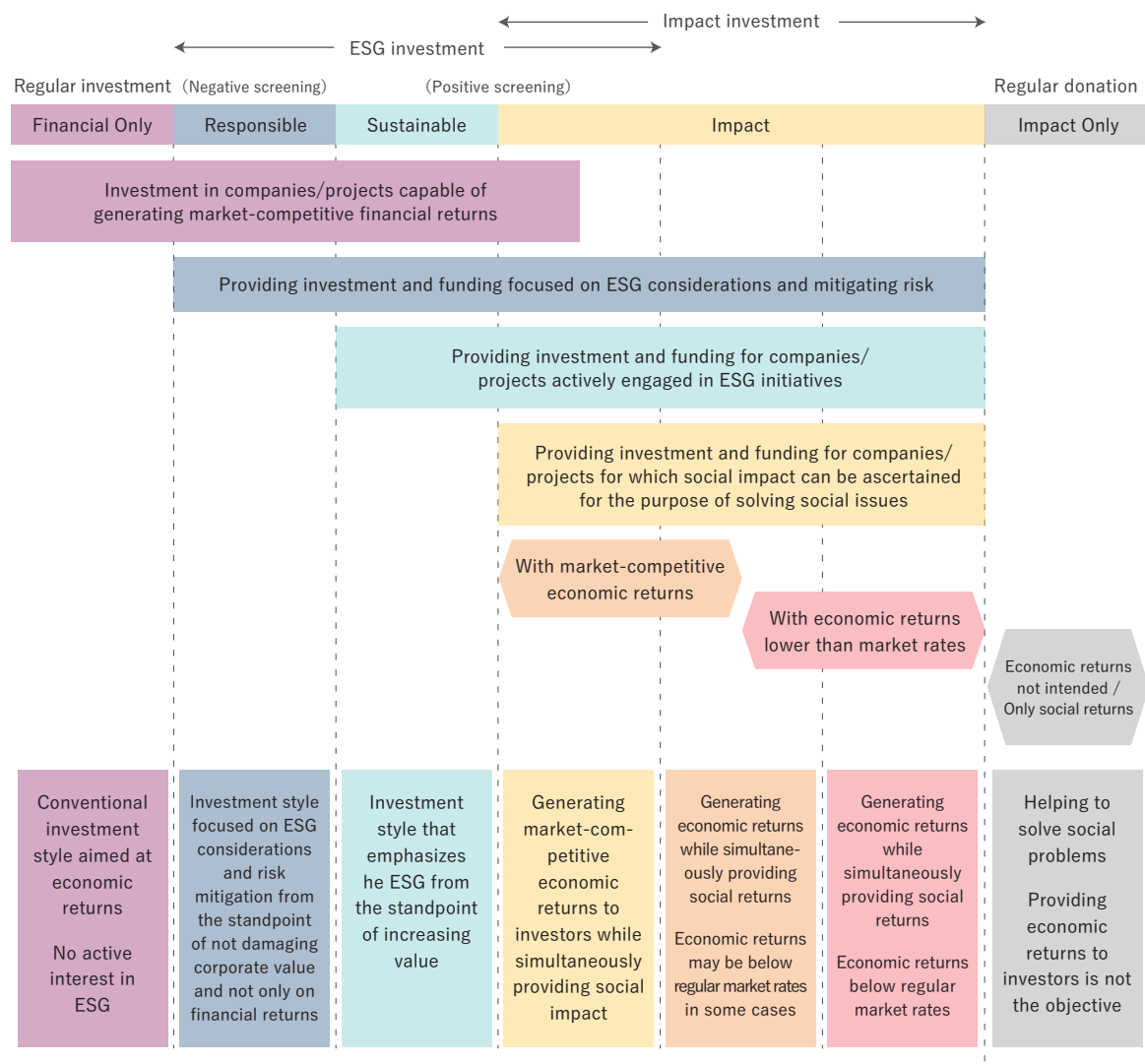
Executive Summary

This year's report presents the current state of impact investing in Japan. It is for the purpose of sharing information for the promotion of impact investing in the country and has been published under the supervision of GSG-NAB Japan.

“Chapter 1: What Is Impact Investing” defines impact investing in general terms, goes over its history globally, presents the background to its development in Japan, and summarizes challenges from recent years.

In accordance with the definition of the Global Impact Investing Network (GIIN), impact investing refers to investing activity that is intended to generate a positive, measurable social and environmental impact alongside financial returns.

Figure 1. Spectrum of impact investing



Source: Position Paper on Expanding Impact Investing 2019 (GSG-NAB Japan)

The following are some of the notable trends observed in impact investing in Japan and overseas in 2020.

- ① More activities by governmental study groups related to impact investing (Financial Services Agency, Ministry of the Environment, Ministry of Economy, Trade and Industry, etc.)
- ② Major Japanese life insurer enters impact investing sector
- ③ Issue of Japan's first sustainability-linked bond
- ④ Japanese credit card company to begin impact investment in Southeast Asia
- ⑤ Keidanren (Japan Business Federation) announces new growth strategy with a basic philosophy of sustainable capitalism.
- ⑥ Establishment of impact investing trust company by Big Society Capital and Schroders of the UK.
- ⑦ Creation of SDG Impact program

“Chapter 2: Japan's Impact Investing Market” analyzes the responses to the *Questionnaire Survey regarding Impact Investment (2020)*; it is the main part of the report. It first describes the survey methods and the inclusion criteria used by the survey for whether an investment counts as impact investing. The chapter then presents the impact investment balance in Japan based on the questionnaire and the compiled results of the responses, and, lastly, summarizes the impact investing market in Japan, defines its current state, and identifies related challenges. The report includes a new initiative started this year. In addition to the conventional questionnaire, a survey of market estimates based on public information has been conducted to calculate the estimated maximum (potential) of Japan's impact investing market. Details on the survey method are provided in the body of the report.

Summary of survey method

- The survey was conducted over the months from September to December 2020.
- 591 surveys were distributed and 75 were collected for a response rate of 12.7%. It was mainly distributed to institutional investors and financial institutions.

Definition of “impact investing” used by the questionnaire

The definition of “impact investing” used for the Questionnaire Survey and presented to respondents includes both of the following.

- **Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return**^{(*)2}

*1 Any financial transactions, including investments (stocks and bonds), loans, leases, among others, that seek monetary returns are collectively called “investments.” Donations, subsidies, and grants are excluded.

- **Impact measurement^{(*)2} is conducted before and after making investments (who does the post-investment measurement does not matter)**

*2 Impact measurement is designed to quantitatively and qualitatively identify social and environmental impacts to add a value judgment to a business or activity (e.g., so that the judgment is used as a reference point for an investment decision, regular monitoring and/or dialogue with each investee company during an investment period, and/or post-investment reporting).

Notes:

- **Not a strict market estimate**

The survey results are the aggregate of responses to the questionnaire returned by mail or in electronic form. They do not qualify as an estimate of the size of the impact investing market in a proper sense.

- **Responses are self-reported, in principle**

Like the GIIN Annual Impact Investor Survey, responses are self-reported by the responding organization, and incomplete responses are supplemented with an additional interview (by email or telephone).

- **Data cleansing and accuracy**

The survey team removed or corrected responses that contained an inconsistency or misunderstanding to the full extent possible and took great care to prevent double counting of balances. These efforts, however, do not guarantee complete accuracy.

Inclusion criteria applied to impact investment balances

While the responses to the Questionnaire Survey were self-reported ones, impact investment balances were classified to be included or excluded based on responses to the questions that asked about criteria for impact investing. The inclusion criteria, which have not changed since the FY 2019 Survey, consist of ① to ③ below, and all of them must be met.

① The responding organization is a corporation based in Japan.

This Survey is on impact investing in Japan. Hence, responding organizations must be corporations based in Japan. Note that the investee companies may be located outside of Japan. If a respondent is a multinational corporation, its responses must be about impact investing activities by its incorporated Japan office.

② The responding organization uses output and/or outcomes as metrics for impact measurement.

This year's Survey, just as the FY 2019 Survey, did not specify what must be measured about a business, including whether the measurement of business outcomes was a requirement and whether output measurement alone would do. Since there is no international standard for metrics that all countries follow, what should be included in the measurement will continue to be explored.

③ The responding organization conducts impact measurement before making an investment decision and after making the investment.

Measurement before an investment decision is made must be conducted by the investor organization, an investment manager, investment fund provider, or an outsourced third-party assessment organization. Post-investment measurement may be conducted by any qualified person, such as a financial intermediary (e.g., a securities firm) other than those stated above, bond issuer, or business operator that receives the investment or loan.

2 This expression has been revised from the 2019 survey in accordance with the *GIIN Annual Impact Investor Survey 2020*.

The GIIN questionnaire survey defines the term as "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. They can be made across asset classes, in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the investors' strategic goals." The underlined portion was presented on the questionnaire form and the remaining portion was included in the explanatory information included with the form.

The definition used for the FY 2019 survey was, "Impact investing refers to investment behavior that is intended to solve social and/or environmental issues while pursuing financial returns. It conducts impact assessments, including impact measurement, before and after making investments."

Impact investment balance

The results of the Questionnaire Survey and the subsequent market estimate survey are compiled and the scale of Japan's impact investing presented quantitatively with three types of figures.

1. Impact investment balance, as ascertained by the Survey Questionnaire: 512.6 billion yen

*This figure is calculated using the same method as previous years' surveys and reports.

The figure is the sum of the investment balances of the 26 organizations that responded to the *Questionnaire Survey regarding Impact Investment (2020)* and met the aforementioned inclusion criteria for impact investments based on self-reporting. Which is to say, the figure represents the sum of investment balances for investments recognized as impact investing and for which impact measurement was conducted both before and after investing.

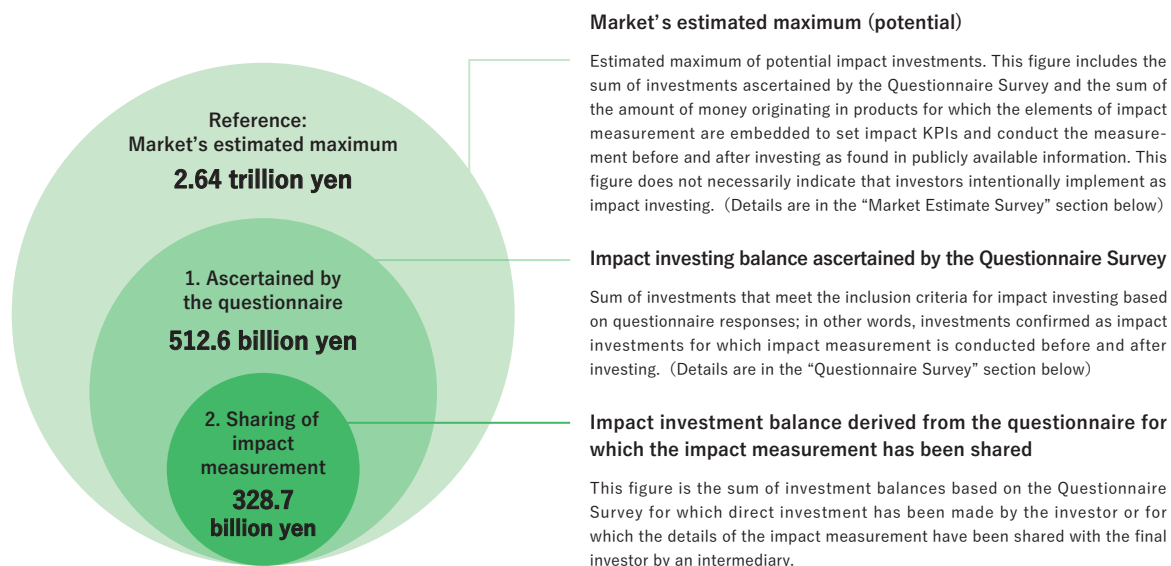
2. Of the impact investment balance ascertained by the Questionnaire Survey, the balance of investments for which the impact measurement has been shared with investors: 328.7 billion yen

This figure is the sum of investment balances based on the Questionnaire Survey (1. above) for which direct investment has been made by the investor or the measurement has been shared with the final investor by an intermediary. In order to ensure it is the intention of the final investor to create an impact in cases in which the intermediary is the one that makes the impact measurement, sharing the results of the measurement with the final investor is thought to be necessary.

Reference figure: Market's estimated maximum (potential): 2.64 trillion yen

This figure includes the sum of investments ascertained by the Questionnaire Survey and the sum of the amount of money originating in products for which the elements of impact measurement are embedded to set impact KPIs and conduct the measurement before and after investing as found in publicly available information. This figure does not necessarily indicate that investors intentionally implement as impact investing. For details, refer to the "Market Estimate Survey" section below.

Figure 2. Scale of Impact Investment Balance



According to the results of the Questionnaire Survey (FY 2020), the total of Japan's impact investment balance and trust management balance as of the end of the immediately preceding fiscal year was approximately 512.6 billion yen. The impact investment balance as ascertained in the same survey the previous fiscal year (FY 2019) was 317.9 billion yen, so major progress has been made. While at the same time, with regard to the evolution of impact investing in Japan, a majority of institutions engaged in impact investing see the market as “about to take off” (Figure 3). It was found then that compared to the international impact investing market, which is viewed as “growing steadily,” the growth is yet to come in Japan (Figure 4). The evolution of Japan's impact investing market was confirmed to be a stage behind the international market and set for growth in the near future.

Figure 3. Stages of Japan's impact investing market evolution ³

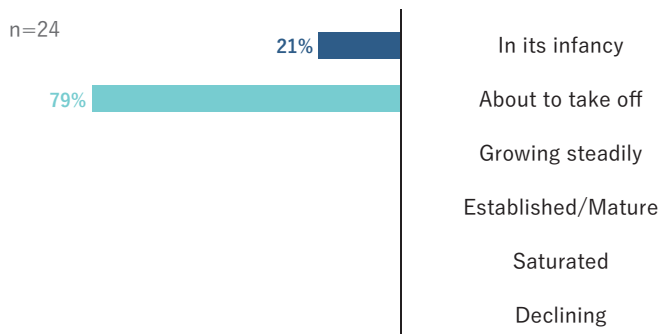
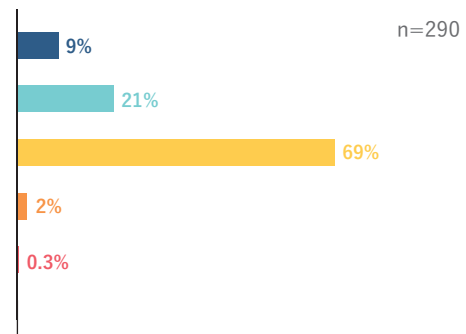


Figure 4. Stages of the international impact investing market evolution

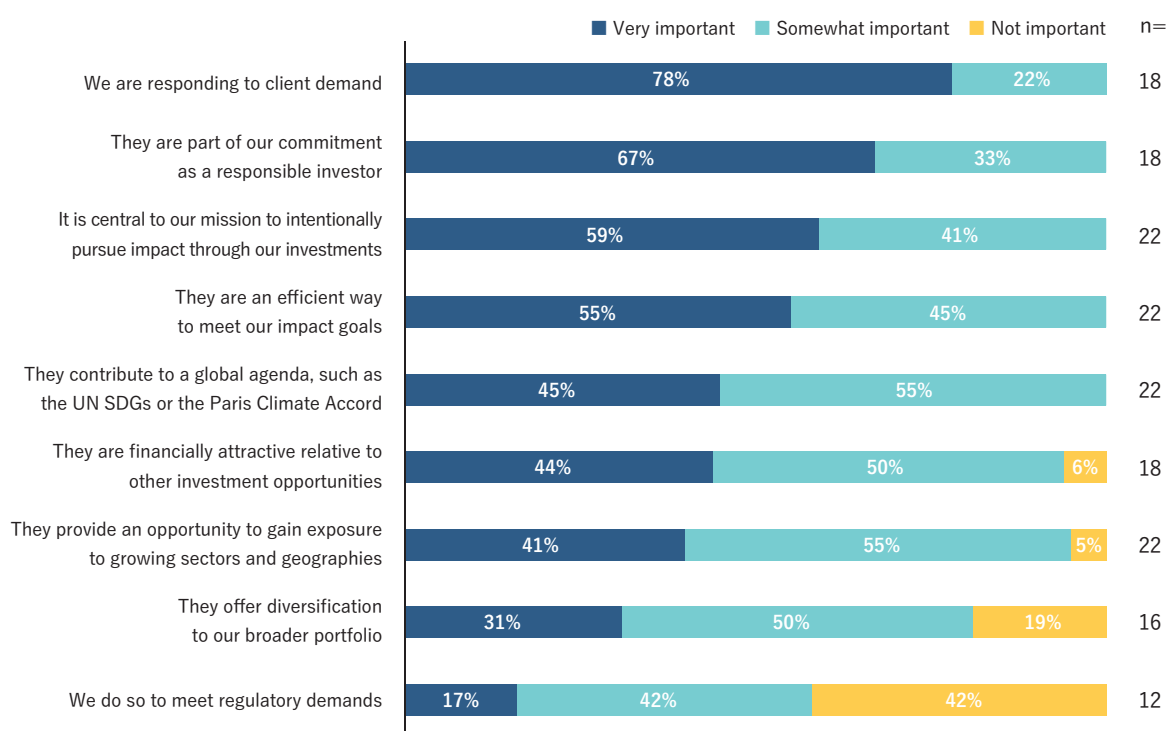


Source: These figures have been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) and GIIN Annual Impact Investor Survey 2020. – Question: “D5. How do you see the state of Japan's impact investing market? Please select the answer that most accurately describes your view. (Single Answer, hereafter “SA”)”

³ Figure 3 shows the results of responses only from the organizations that have taken actions to meet the requirements for inclusion in impact investing stated earlier. The organizations that provided no answer at all were not counted.

Regarding the motivation for impact investing, the most common response was “We are responding to the client demand,” and second was “They are part of our commitment as a responsible investor.” This suggests that Japan’s impact investing market is poised for further growth going forward (Figure 5).

Figure 5. Motivation for engaging in impact investing ⁴



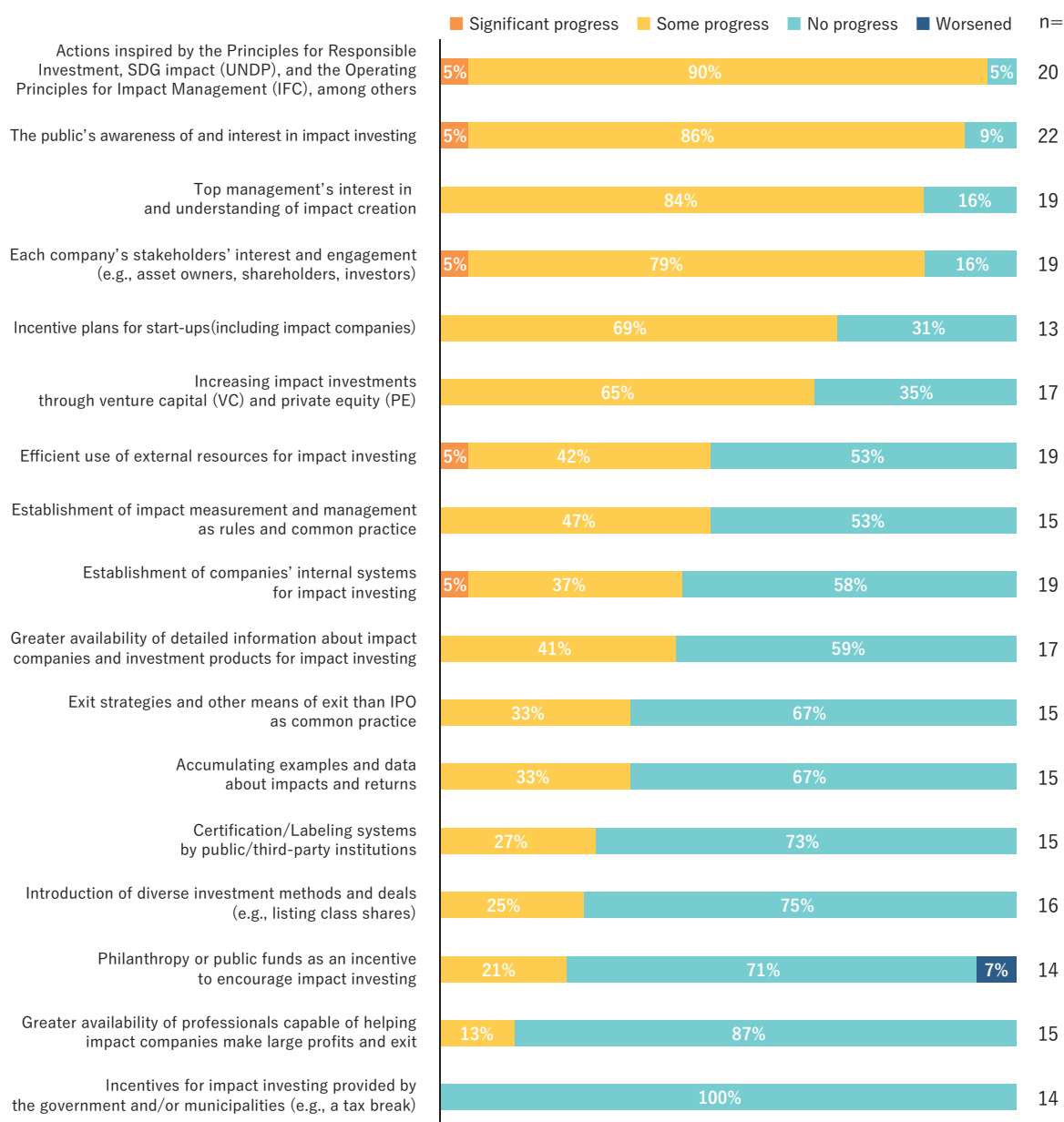
Source: This figure has been created based on Questionnaire Survey regarding Impact Investment (2020) (GSG-NAB Japan) – Question: “D4. How important are each of the following in terms of motivating your organization to engage in impact investing? (SA)”

At the same time, while most respondents view Japan’s impact investing market as having progressed over the past year in “actions inspired by the Principles for Responsible Investment, SDG Impact (UNDP), and the Operating Principles for Impact Management (IFC),” among others, and in “the public’s awareness of and interest in impact investing” (Figure 6), “fragmentary and unsystematic approaches to impact measurement and management” was cited as a challenge going forward both by institutions already engaged in impact investing and those considering entering the market in the future (Figure 7). After impact measurement and management, the next two most commonly cited challenges were “a limited number of impact companies to invest in” and “limited availability of professionals capable of helping impact companies make profits and exit.” It can be assumed that the latter is also an underlying factor for the former. The responses made it clear that Japan still has relatively few impact companies that investors wish to invest in (Figure 7). Also, as the market grows, there is a danger that the essential nature of impact investing will be lost and it will become “impact washing,” which is when regular investments are dressed

⁴ Figure 5 shows the results of responses only from the organizations that have taken actions to meet the requirements for inclusion in impact investing stated earlier. The organizations that provided no answer at all were not counted. Some items do not sum to 100% due to the processing of decimal points.

up to resemble impact investments. In fact, Figure 12 in the *GIIN Annual Impact Investor Survey 2020*⁵ (GIIN Survey 2020 hereinafter) shows that a vast majority of impact investors cite impact washing as the single most important issue that the impact investment market will face over the next five years.

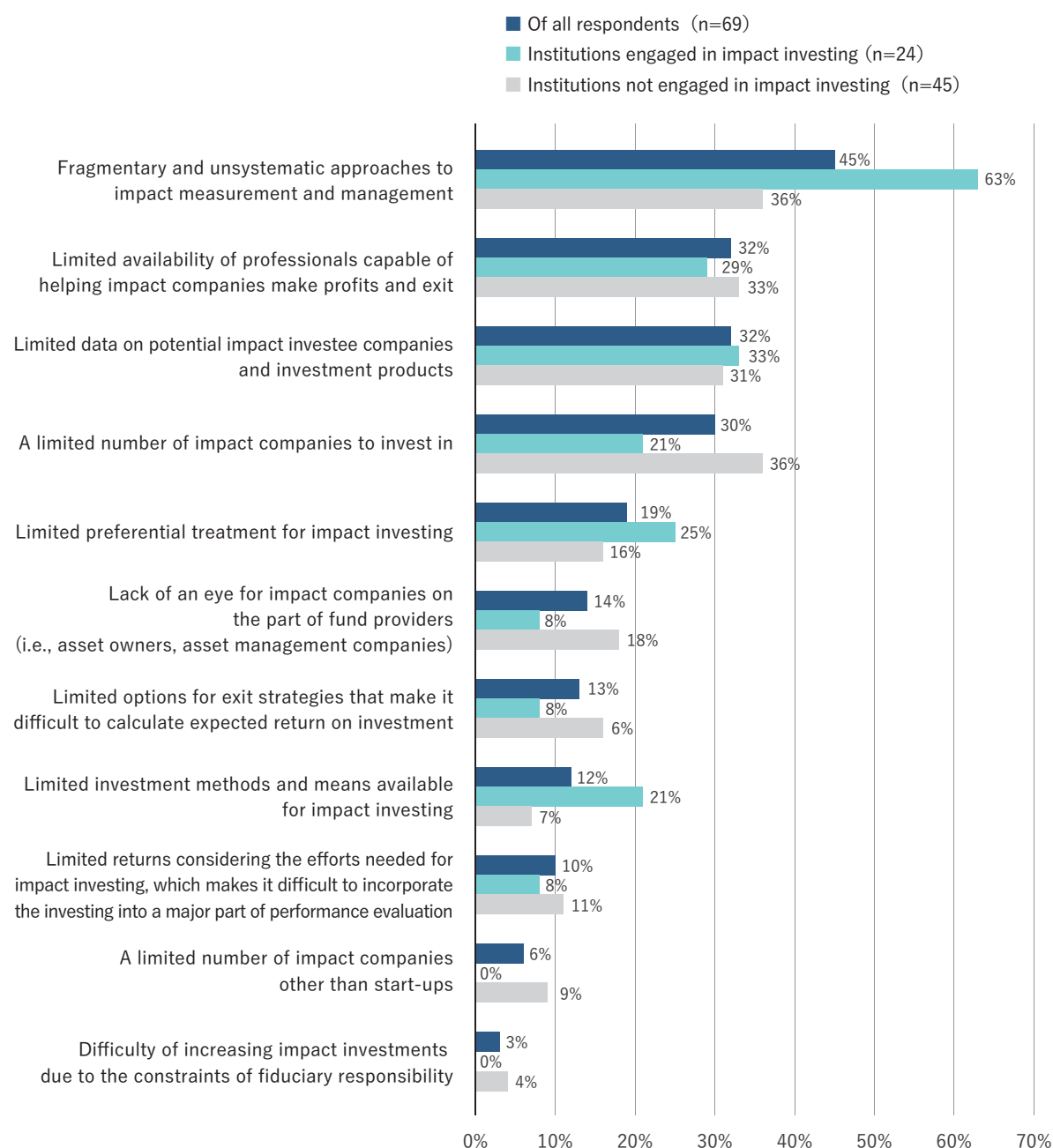
Figure 6. Progress of Japan's impact investing market over the past one year⁶



Source: This figure has been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) – Question: “D12. How do you view the progress that Japan's impact investing market in general has made over the past one year? (SA for each statement)”

⁵ *GIIN Annual Impact Investor Survey 2020* (<https://thegiin.org/research/publication/impinv-survey-2020>) Unless otherwise noted below, “GIIN Survey 2020” refers to this source.

⁶ Figure 6 shows the results of responses only from the organizations that have taken actions to meet the requirements for inclusion in impact investing stated earlier. They are presented in descending order based on the combined percentage of “significant progress” and “some progress.” The organizations that provided the answer “We don't know/NA” or no answer at all were not counted. Some items do not sum to 100% due to the processing of decimal points.

Figure 7. Challenges facing businesses that aim to increase impact investments ⁷

Source: This figure has been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) – Question: “D6. What do you think is the problem when Japan plans to increase impact investing going forward? (Multiple Answer, hereafter “MA”, up to 3)”

“Impact Investing Case Studies” presents examples from institutions engaged in impact investing that are indicative of recent trends. Refer to the body of the report for details.

⁷ Figure 7 does not include invalid responses that had selected four or more answers, as respondents were asked to select up to three.

Figure 8. Examples of case studies selected and reasons for their selection

Name of institution	Method	Reason for selection
Sumitomo Mitsui Trust Holdings, Inc. and Sumitomo Mitsui Trust Bank, Limited	Positive Impact Finance	<ul style="list-style-type: none"> • Suggests the potential of impact investing in debt finance • Importance placed on creating a positive impact in the company's stated purpose (reason for being, objectives) and management strategy (medium-term management plan, value creation model)
Kamakura Investment Management Co., Ltd.	Exchange-traded funds	<ul style="list-style-type: none"> • Investment in listed stock tied to impact

There are two feature columns in this report. “**Column 1: Impact investing information hubs in Japan and overseas**” highlights organizations and networks that promote impact investing inside and outside Japan, and “**Column 2: Overview of international impact investing surveys**” provides information on the two international impact investing surveys referred to in creating this report, *GIIN Annual Impact Investor Survey 2020* and *IFC Growing Impact*.

The “**contributed articles**” at the end of the report take up important topics related to the promotion of impact investing in Japan and present the opinions of leading figures and specialists in various areas. The opinions expressed in these articles belong to the contributors and interviewees; they do not represent the official views of their affiliated organizations or the GSG-NAB Japan.

List of topics and contributors

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Main Issues for Impact Investing in Japan

Takeshi Mizuguchi, Professor, Faculty of Economics, Director and Vice-President, Takasaki City University of Economics

Professor Takeshi Mizuguchi chairs both the Study Group on Impact Investment, which is co-organized by the Financial Services Agency and GSG-NAB Japan, and the Positive Impact Finance Task Force, established by the ESG High-Level Panel and administered by the Ministry of the Environment. In this article, he identifies key points of debate from among the issues discussed by both these groups and summarizes them with reference to his personal views. Professor Mizuguchi also serves as chair of the Expert Panel on Sustainable Finance⁸ established by the Financial Services Agency.

⁸ https://www.fsa.go.jp/singi/sustainable_finance/index.html

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Impact investing and IMM

Katsuji Imata, President, Social Impact Management Initiative,
Co-CEO, Blue Marble Japan, Inc.

The article introduces impact measurement and management (IMM), a basic concept of impact investing, and explains why it is necessary in IMM to ask “why” and “what” before considering “how.” It also discusses the importance of intentionality and practical standards for impact investing and explains different approaches as the field continues to evolve. Finally, Mr. Imata suggests promoting IMM as the best of the measures that are needed to bring the thinking and practice of impact investing into the mainstream.

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Impact investing from a startup’s point of view

Yoshiaki Ishikawa, Director, CFO, and Impact Officer, Life is Tech, Inc.

This article summarizes Mr. Ishikawa’s thoughts on impact investing and business practice from the standpoint of an education startup that is promoting its business together with an impact investor. It conveys the views of a frontline participant on the significance of impact measurement as a form of R&D, relationships with investors who are partners in impact generation, and prospects for the future of impact investing as gleaned from interactions with the younger generation.

Summary conclusion

The coronavirus ran rampant through the year of this survey and report, FY 2020, but it also seems simultaneously to have furthered understanding of the usefulness of impact investing. In fact, in this year’s Questionnaire Survey, institutions engaged in impact investing were asked about the impact of COVID-19 on impact investment activities. The question was open format, and the responses included comments such as “It has shined more light on the ‘social’ factor, and conditions are becoming more conducive to impact opportunities,” and “The emergence of social issues has made more people aware of it.”

There is likely to be more discussion and practice of impact investing in Japan going forward, and we believe that this report, a kind of fixed-point observation of the current location of impact investing in the country, can serve as a foundation for discussion while providing suggestions for practice.

We would like to again express our appreciation to all of the people and organizations that participated in the *Questionnaire Survey regarding Impact Investment (2020)*. It is our hope that this report contributes to solving social issues through impact investing.

About GSG Headquarters and the GSG-NAB Japan

About the Global Steering Group for Impact Investment

The Global Steering Group for Impact Investment (GSG) is a global network organization that promotes impact investing having a better influence on people and the earth. The “G8 Impact Investment Taskforce,” which was established in 2013 driven by the call of the former UK Prime Minister David Cameron, the then chair of Group of Eight (G8) summit, changed its name to GSG in August 2015. Currently, member nations and region (EU) in 33 countries worldwide have joined the taskforce as each country’s National Advisory Board. Sir. Ronald Cohen, a pioneer in venture capitals in the UK chairs the taskforce, and leaders in diverse fields, such as finance, business and philanthropy, have participated in GSG’s activities.

About GSG-NAB Japan

GSG-NAB Japan was established in 2014 as the Japan Branch of GSG. It contributes to the development of the market and ecosystem for impact investing in collaboration with practitioners and experts in diverse fields, including financial, business, social, and academic institutions. GSG-NAB Japan’s activities revolve around three pillars of: research and publication, awareness-raising, and networking.

List of members

As at the end of January 2020, GSG-NAB Japan consists of the following members.

Chairperson

Hiroshi Komiya Chairman, Mitsubishi Research Institute, Inc.

Vice-chairperson

Masataka Uo Founder and CEO, Japan Fundraising Association

Members (in the order of the Japanese syllabary)

Mitsuaki Aoyagi Vice-chair of Executive Committee,
The Social Innovation and Investment Foundation

Tadahiro Kaneko General Manager, Sustainable Business Promotion Department,
Sumitomo Mitsui Banking Corporation

Ken Shibusawa Chief Executive Officer, Shibusawa and Company, Inc.

Tomoya Shiraishi Director, Social Investment Partners

Satoshi Suzuki Executive Officer, Mizuho Bank Ltd.

Miyuki Zeniya Fellow, Head of Sustainable Finance Investment Planning Dept.,
The Dai-ichi Life Insurance Company, Limited

Chunmei Huang Senior Director, Impact Investment Team, Shinsei Corporate Investment Limited

Masataka Fukao CEO, Plus Social Investment Co., Ltd.

Takehiro Fujimura	General Manager, Corporate Sustainability & CSR Department, Mitsubishi Corporation
Hiroshi Mikitani	Representative Director, Japan Association of New Economy
Mutsuya Mori	Vice President, Japan International Corporation Agency

Secretariat organizations

The following organizations are in charge of practical operations as the secretariat, including contact point operations, planning and operation of meetings and events, and research and transmission of information (in the order of the Japanese syllabary).

- Asian Venture Philanthropy Network (AVPN)
- Kazetotsubasa Co., Ltd.
- K-three Inc.
- The Social Innovation and Investment Foundation (SIIF)
- Japan Fundraising Association

About Consolidating Terms Related to Impact Investing

While “impact investing” itself is a relatively new term, we would like to consolidate terms related to impact investing before getting to the main text of this report.

“**Impact investing**” is defined in this report and *Questionnaire Survey regarding Impact Investment (2020)* as investing that meets both of the following conditions. This term is synonymous with “Social Impact Investment,” which was used by GSG-NAB Japan until 2019.

- **Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return⁹**
- **Impact measurement is conducted before and after making investments (who does the post-investment measurement does not matter)**

Definitions of other terms related to impact investing are, in this report, as follows:

■ **“Impact”** refers to social and/or environmental change or effect as a result of a business or activity, whether it is long- or short-term.

■ **“Impact measurement”** is the act of quantitatively and qualitatively identifying a social and environmental impact in order to add a value judgment to a business or activity.

■ **“Impact management”** is management that aims to achieve a greater impact by incorporating impact measurement into the process of business operation in order to make improvements on a business and to make decisions based on acquired information. When referring to both “impact management” and “impact measurement,” “impact measurement/management” is used.

■ An **“impact company”** refers to a company oriented to creation of impact.

⁹ Any financial transactions, including investments (stocks and bonds), loans, leases, among others, that seek monetary returns are collectively called “investments.” Donations, subsidies, and grants are excluded.

About division between “social impact evaluation” and “impact measurement”

“Social impact evaluation” has not necessarily been discussed in accordance with the trends of impact investing. In 2016, with the “Working Group on Social Impact Measurement¹⁰” of the Cabinet Office’s Council for Promotion of the Society of Mutual Assistance acting as a trigger, utilization of social impact measurement was discussed with an aim to attracting private funds to solve social issues. Then, together with the introduction of impact investing into Japan, impact investing and social impact measurement have come to be connected. On the other hand, a different term “impact evaluation” as causal research exists in the evaluation field. On another front, in actual discussions about impact investing, “impact evaluation,” with “social” removed, may also be used to imply environmental impact in order to avoid the limited recognition only in the scope of “social” though “impact” in impact investing includes both social and environmental ones. In order to avoid confusion with the term in the evaluation field, GSG-NAB Japan employs the expression “social impact measurement” at present (same as in this report of Japanese version, while the English version uses the term “Impact Measurement and Management” in align with international terminology).

About “Impact Measurement and Management, IMM”

In the global context, a term “Impact Measurement and Management (IMM)” is commonly used as the term corresponding to “social impact evaluation” used in discussions about impact investing in Japan¹¹. Although this term literally means “measurement and management of impact,” the definition by GIIN is the “repetitive process that includes identification and examination of both positive and negative impact of business activities on people and the earth, and on that basis, finds and practices ways to reduce negative impact and maximize positive impact while being consistent with your own objective¹².” Consolidation of concepts and terms is expected to progress going forward as impact investing in Japan develops.

10 “Working Group on Social Impact Measurement” of the Cabinet Office’s Council for Promotion of the Society of Mutual Assistance: https://www.npo-homepage.go.jp/kaigi/kyoujo-shakai/work-kaisai-h27#wg_1

11 GIIN and IMP are striving to familiarize this term: <https://thegiin.org/imm/> and <https://impactmanagementproject.com/>

12 Explanation of IMM by GIIN: <https://thegiin.org/imm/> (The translation was made by the writer.) The original text is “Impact measurement and management includes identifying and considering the positive and negative effects one’s business actions have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one’s goals. Impact measurement & management is iterative by nature.” Please visit the GIIN website for further explanation.

Chapter 1 : What Is Impact Investing?

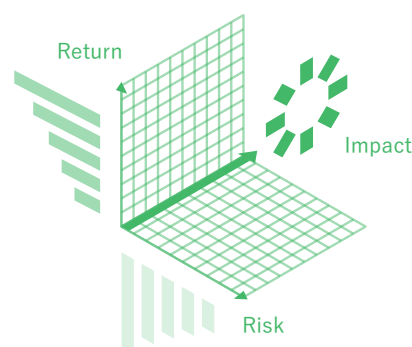
Impact Investing Concept and Summary

Definition of impact investing

In accordance with the definition of the Global Impact Investing Network (GIIN), impact investing refers to investing activity that is intended to generate a positive, measurable social and environmental impact alongside financial returns.

Conventional investing judges value on the two metrics of risk and return. Impact investing refers to investments that add a third metric, impact, and intentionally pursue both social returns and financial returns.

Figure 9. Three-dimensional assessment of risk, return, and impact



Source: SIIF Annual Report 2019 (SIIF)¹³

GIIN's four key elements of impact investing

GIIN stipulates four key elements of impact investing.

Four Key Elements of Impact Investing

Stated in “Core Characteristics of Impact Investing” (GIIN)

① INTENTIONALITY

Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.

② FINANCIAL RETURNS

Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.

③ RANGE OF ASSET CLASSES

Impact investments can be made across asset classes.

④ IMPACT MEASUREMENT AND REPORTING

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

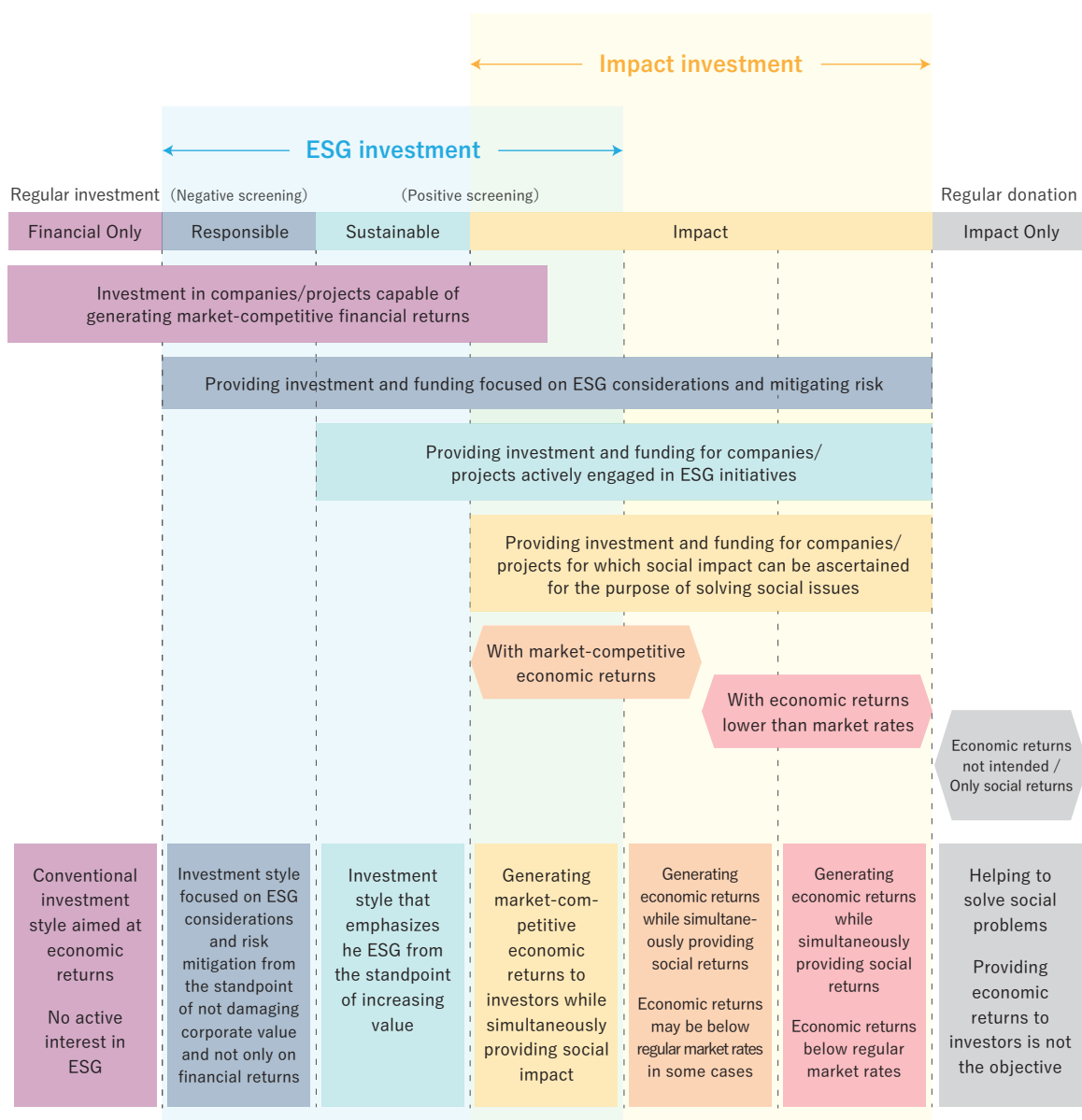
13 Created based on *Doing well by doing good* (UBS, 2016).

There is a strong emphasis here on intentionality and evaluation, and these elements were strictly checked again in this year's survey.

Difference between impact investing and ESG investing

Impact investing is sometimes taken to be the same as ESG investing or as a subcategory of ESG investing, but in the definition used here impact investing and ESG investing partially overlap with one another.

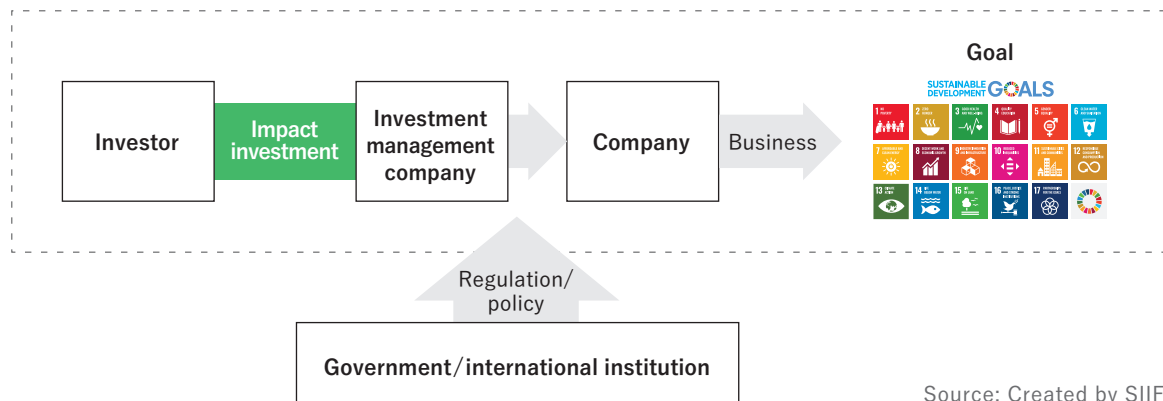
Figure 10. Difference between ESG investing and impact investing



Source: *Position Paper on Expanding Impact Investing 2019* (GSG-NAB Japan)

ESG investment aims to reduce long-term risk and maximize returns (two-dimensional), while impact investing has the clear intention of solving a specific social issue (three-dimensional). Impact investing is expected to play a large role in helping achieve the SDGs, which will not be possible with ESG investment alone.

Figure 11. Flow of funds to SDGs



Background and History of Impact Investing

Origin of the term “impact investing”

The term “impact investing” goes back to an international conference held under the leadership of the Rockefeller Foundation in 2007. The term itself is relatively recent, but the emergence of the concept itself is related to the history of the US and Europe. This section introduces the background and history of impact investing in the world, as well as major event and key issues.

Emergence and development of impact investing in Europe

In Europe, the concept of social finance emerged in the late 1960s. The main financial institutions involved were Triodos Bank of the Netherlands, GLS Bank of Germany, Banca Etica of Italy, and The Co-operative Bank of the UK. Established with a strong focus on the social nature of finance, such financial institutions played a leading role in subsequently promoting impact investing as well, providing funds from an early stage.

Impact investing in Europe then has over 50 years of history, but a major impetus for its growth was establishment of the Social Investment Task Force in 2000 under the leadership of Sir Ronald Cohen. This led to the launch of various new foundations, groups, corporations, and other organizations primarily in the UK dedicated to expanding the impact investing market, and related activities increased.

In the UK, Bridges Venture (now Bridges Fund Management) was established in 2002, the country’s first impact investing fund (for unlisted stock) that pursues returns equivalent to market levels, community development financial institutions were introduced, drawing on the experience of the US, and social

investment tax¹⁴ relief was enacted. In 2008, the Dormant Accounts Act was enacted, and in 2012, Big Society Capital was established as a wholesale fund that provides funds in dormant accounts to private-sector funds involved in social investment.

Emergence and development of impact investing in the US

In the US, the civil rights movement that began in the 1960s brought attention to financial inclusion and the need to prevent ethnic minorities and people in poverty from being excluded from financing, and a number of community development financial institutions were established in succession.

Building on this momentum, program related investment (PRI) was introduced, led by the Ford Foundation, in 1968. PRI is a mechanism by which a foundation uses part of its endowment to support programs not through grants but through investment, loans and other such methods. Funds are provided for low-interest student loans, housing construction projects for low-income people and various other programs. Through these activities, grant-making foundations and others in the philanthropic sector gained experience in providing assistance through investment and loans.

Since the Rockefeller Foundation began using the term “impact investing” in 2007, prompted by critical reflections on the global financial crisis of 2008, the necessity of investment to build a sound society became widely acknowledged, and funds began flowing in from the private sector at an accelerating rate. For example, there were increased initiatives from the Gates Foundation and other IT entrepreneurs based in the US as well as major financial institutions such as Goldman Sachs and Morgan Stanley.

Launch of the GSG led by the UK and the global development of impact investing

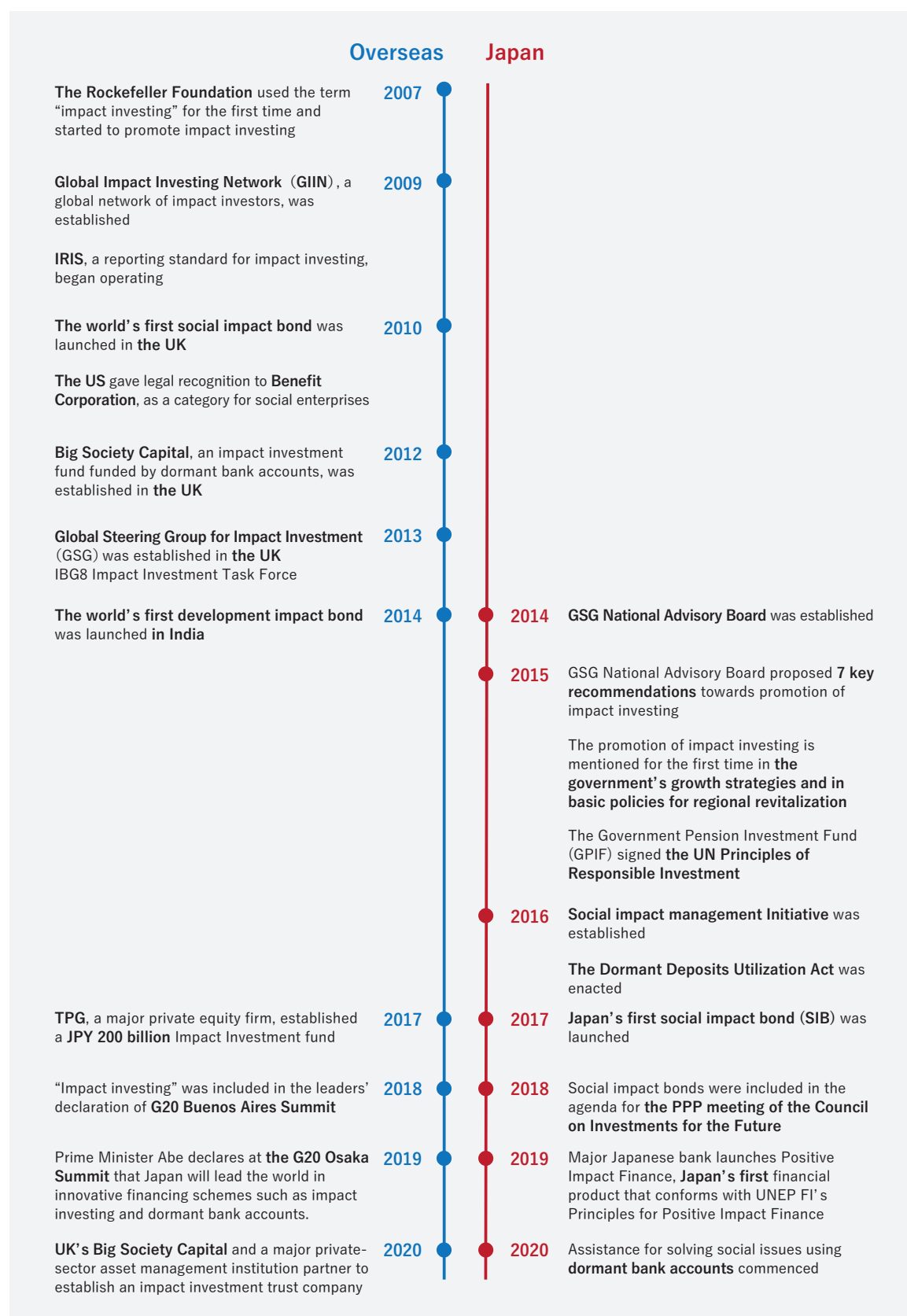
Following these developments, the G8 Impact Investment Task Force was created as called for by the former UK Prime Minister David Cameron at the 2013 G8 Summit hosted by the UK. Thereafter, in August 2015, five additional countries began participating and the task force was launched anew under a new name, The Global Steering Group for Impact Investment (GSG). As of February 2021, the GSG has National Advisory Boards in 33 countries and the EU that work to promote and raise awareness of impact investing in their respective countries.

In 2018, at the G20 Buenos Aires Summit, “impact investing” was included in the Leaders’ Declaration, and at the G20 Osaka Summit in 2019, the declaration recognized that “international public and private finance for development as well as other innovative financing mechanisms, including blended finance, can play an important role in upscaling our collective efforts,” as impact investment has increasingly become a commonly known concept.

As stated above, impact investing is growing not only in developed countries in the West, as discussed above, but also in emerging countries.

14 The UK government defines social investment as follows: “Social investment is the use of repayable finance invested into a social organisation to help it achieve its purpose and increase its impact on society.”
(<https://www.gov.uk/government/collections/social-investment>)

Figure 12. History of impact investing in the world and Japan



Source: Created based on *Current State of Social Impact Investing in Japan 2019*

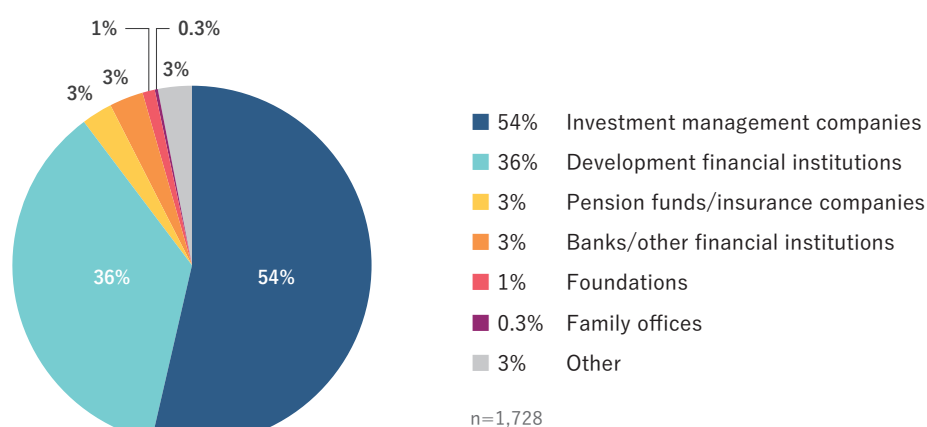
Scale and Trends in International Impact Investing

Scale of impact investing market based on GIIN survey

According to the *Annual Impact Investors Survey 2020* (issued June 2020), impact investment balance (assets under management) as of the end of 2019 at the 294 impact investment institutions that responded to GIIN's questionnaire stands at 404.0 billion dollars (approx. 44 trillion yen), and estimated assets under management for impact investment overall is 715.0 billion dollars (approx. 79 trillion yen).

Asset management companies account for 54% of the impact investment balance, and most impact investors utilize these companies.

Figure 13. Share of impact investment balance by institution (end-2019)



Source: GIIN Annual Impact Investor Survey 2020 (GIIN)

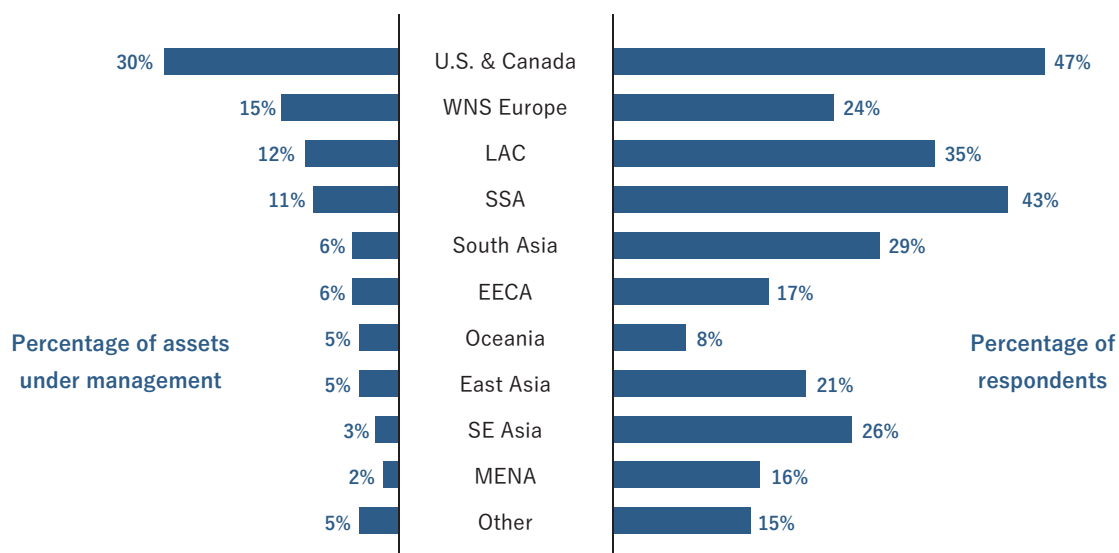
Geographic distribution of impact investments

Investees are broadly distributed regionally, and split nearly 50-50 between developed and developing countries. The largest investment destination is the US and Canada (30%) on the basis of total assets under management.

Figure 14. Investee share by region

% of AUM excluding outliers;
n = 289; AUM = USD 221 billion

% of respondents with any allocation to each geography;
n = 294; respondents may allocate to multiple geographies



Source: GIIN Annual Impact Investor Survey 2020 (GIIN)

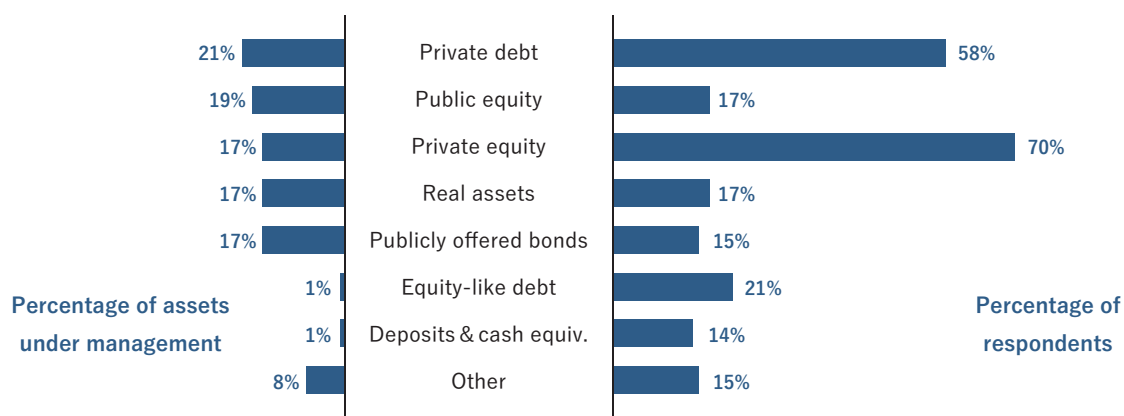
Asset class

Investees are primarily unlisted companies, and private debt (21%) and private equity (17%) combined account for roughly 40%. Investment and loans for listed companies has increased in recent years. Their listed stock accounts for 19% and publicly issued bonds, 17%.

Figure 15. Share of impact investment balance by asset class

% of AUM excluding outliers;
n = 289; AUM = USD 221 billion

% of respondents with any allocation to each asset class;
n = 294; respondents may allocate to multiple asset classes



Source: GIIN Annual Impact Investor Survey 2020 (GIIN)

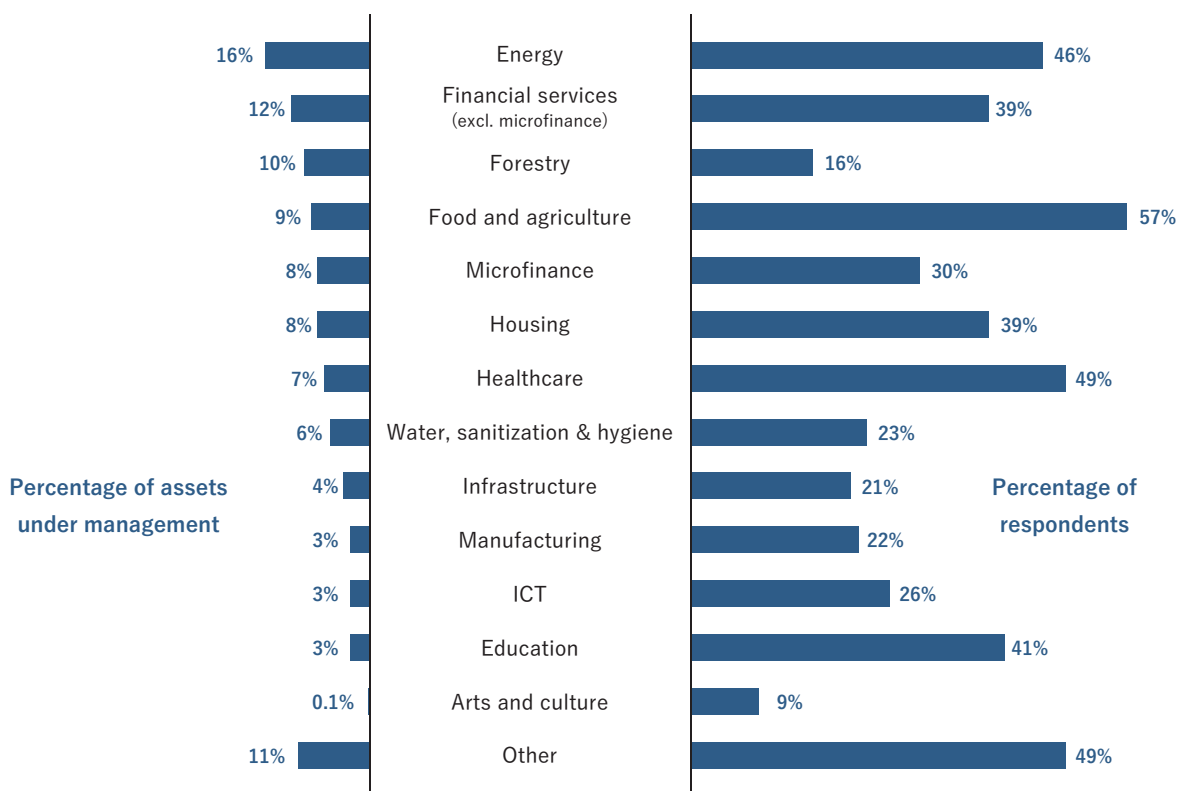
Sectors of impact investees

Looking at the impact investment balance by sector of impact investees, there is substantial investment in sectors closely related to the SDGs, including energy, finance (other than microfinance), forestry, and food and agriculture.

Figure 16. Sectors of investees

% of AUM excluding outliers;
n = 289; AUM = USD 221 billion

% of respondents with any allocation to each sector;
n = 294; respondents may allocate to multiple sectors.



Source: GIIN Annual Impact Investor Survey 2020 (GIIN)

Trends and issues in recent years: Necessity of clarifying the basic principles and requirements of impact investing.

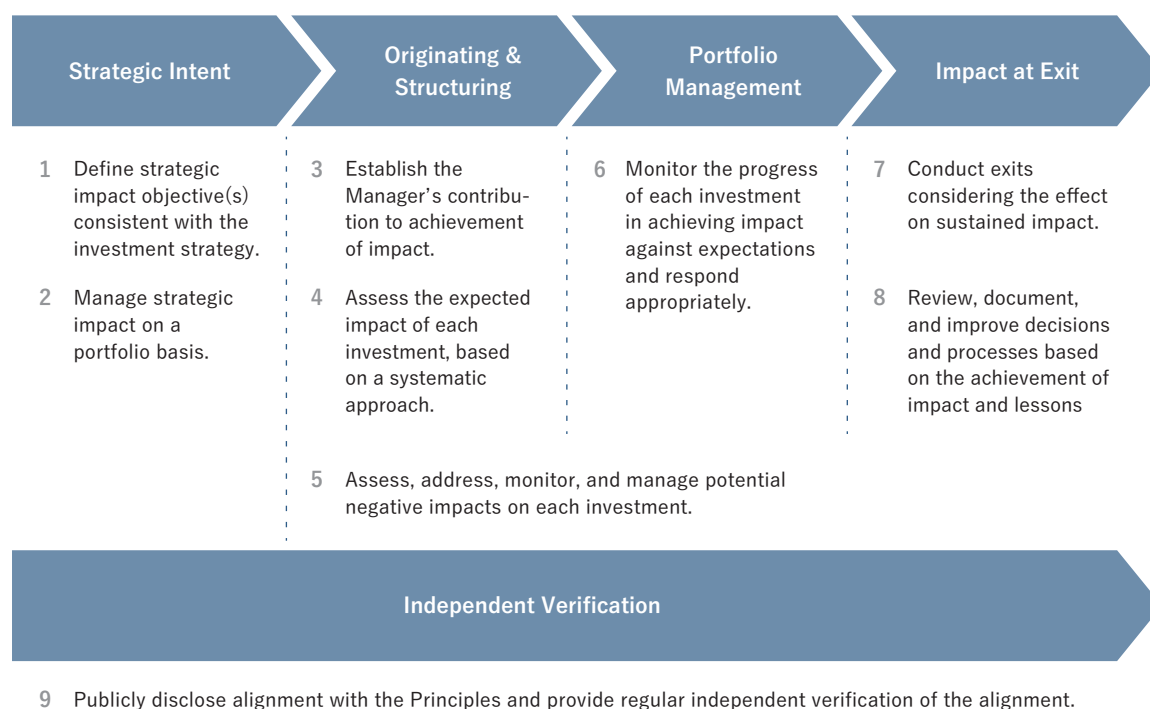
As the field has grown, concerns have been raised about investments disguised as impact investments, a phenomenon called “impact washing.” Efforts are therefore underway to clarify basic principles and requirements for impact investing in order to promote its sound development and prevent impact washing.

Figure 17. Examples of international principles for impact investing

Core Characteristics of Impact Investing

Intentionally contribute to positive social and environmental impact through investment alongside a financial return	Use Evidence and Impact Data in Investment Design
Manage Impact Performance	Contribute to the Growth of Impact Investing

Operating Principles for Impact Management



Source: Created based on the GIIN website (<https://thegiin.org/characteristics>) and *Invest for Impact: Operating Principles for Impact Management* (IFC)

Other Trends in Impact Investing

Noteworthy impact investing trends in 2020 in Japan and overseas

① Activities by governmental study groups related to impact investing (since January 2020)

As far as is known, there have been six new study groups established within the government since January 2020. More study groups related to the environment have been formed in recent years as concern over global climate change has mounted.

Figure 18.

Trends in the establishment of new governmental study groups related to impact investing since 2020

Month/Year	Ministry of Economy, Trade and Industry	Financial Services Agency	Ministry of the Environment
February 2020	Study Group on Environmental Innovation Finance		
April 2020			Positive Impact Finance Task Force
June 2020	Green Innovation Strategy Meeting	Study Group on Impact Investment	
January 2021	Study Group on Improving the Environment for Transition Finance	Expert Panel on Sustainable Finance	

Source: Created by SIIF from information released by government ministries and agencies

For example, the Ministry of the Environment, which previously had only mentioned ESG investment, has explicitly indicated its interest in impact investing through establishment of the Positive Impact Finance Task Force. The task force released the Concept Paper on Impact Finance in July 2020. It follows the United Nations Environment Programme Finance Initiative in advocating for the necessity of impact specification, pre-assessment, monitoring, and disclosure.

② Major Japanese life insurer enters impact investing sector¹⁵

One of Japan's major life insurers announced in July 2020 that it would enter the impact investing sector by making investments following careful consideration of the investee's degree of impact on society. It is investing 2.0 billion yen in a US investment firm with a track record in the field of impact investing, and approximately 10.0 billion in Japanese startups working to solve social issues. After three years, the company plans to invest a total of around 30.0 billion yen annually.

③ Issue of Japan's first sustainability-linked bond¹⁶

A major real estate company issued Japan's first sustainability-linked bond on October 15, 2020. The bond links its issue terms to ESG targets. The issue amount was set at 10.0 billion yen with a 10-year duration. Unlike green bonds, for example, sustainability-linked bonds do not place limits on how the funds may be used.

Based on the Sustainability-Linked Bond Principles established by the International Capital Market Association (ICMA), when sustainability-linked bonds are issued, the issuer is required to stipulate key performance indicators (KPI), including impact indicators, and sustainability performance targets (SPT) in advance. The principles also require the issuer to consider the level of their achievement after the fact, which can be interpreted as meeting this survey's requirement for inclusion in impact investment balances that impact measurement be conducted before and after investing. It was therefore judged that sustainability-linked bonds can be included in the category of impact investing.¹⁷

④ Japanese credit card company to begin impact investing in Southeast Asia¹⁸

A Japanese credit card company has set a goal of promoting financial inclusion initiatives in the Asian region. As a part of this, in December 2020, the company announced it will be starting an impact investing program in Southeast Asia through its Singaporean subsidiary. Specifically, it will lend loan funds to local financial institutions and fintech companies that provide financial inclusion services to lower income people and to micro, small, and medium-sized enterprises.

15 Company press release dated July 15, 2020 <https://www.nissay.co.jp/news/2020/pdf/20200715.pdf>

16 Company press release dated October 9, 2020 <https://ssl4.eir-parts.net/doc/3003/tdnet/1888619/00.pdf>

17 *Sustainability-Linked Bond Principles* (ICMA, June 2020)

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

18 Company press release dated December 11, 2020

https://corporate.saisoncard.co.jp/wr_html/news_data/avmqks000000ba9x-att/20201211_Release.pdf

⑤ Keidanren (Japan Business Federation) announces new growth strategy with a basic philosophy of sustainable capitalism ¹⁹

Keidanren (Japan Business Federation, “Keidanren” hereinafter) in November 2020 put an end to its previous growth strategy and announced the organization’s new strategy (“. The New Growth Strategy”). Keidanren has made sustainable capitalism, a new form of capitalism, its basic philosophy and put forth a growth strategy with emphasis on the following three challenges.

- Sustainable capitalism: Rectify disparities between nations, generations, occupations, and regions to make capitalism sustainable
- Future Vision for 2030: Focused expansion of investment in the future, including the education of children and young people, support for families with young children and for young researchers, and investment in next-generation technologies, in order to enable a future of sustainable growth.
- Action Toward 2030: Clarify important actions for the economy and society for 2030, the target year for the growth strategy and SDGs.

⑥ Establishment of impact investing trust company by Big Society Capital and Schroders of the UK ²⁰

Big Society Capital, a UK institution that distributes dormant funds, joined with Schroders, a major global asset management firm, in December 2020 to establish a new investment trust, Schroder BSC Social Impact Trust plc. Through an IPO, the new trust raised 100 million pounds (approx. 14.0 billion yen) that will be allocated to investment and loans for social companies involved, for example, in tackling the significant increase in homelessness, providing housing for survivors of domestic abuse, and improving access to medical services.

⑦ UNDP announces SGD Impact program guidelines for private equity funds ²¹

Achievement of the Sustainable Development Goals (SDGs) will require large amounts of funds, and in 2018 the SDG Impact initiative was started under the United Nations Development Programme to establish standards for investments and projects that contribute to the SDGs and certify those that meet the standards in order to expand the flow of private-sector funds for the goals’ achievement.

SDG Impact has created three sets of standards: Standards for Private Equity Funds, Standards for Bonds, and Standards for Enterprises, and in October 2020 the UNDP announced guidelines for the private equity standards. The standards are created by the UNDP, but certification itself is conducted by third-party certification bodies.

19 Keidanren, Policy Proposal, November 17, 2020 https://www.keidanren.or.jp/policy/2020/108_honbun.html

20 UK’s Schroders plc press release dated December 3, 2020

https://www.schroders.com/en/media-relations/newsroom/all_news_releases/schroders-and-big-society-capital-to-launch-uk-social-impact-trust-to-improve-lives-of-those-in-need/

21 UNDP press release dated October 6, 2020

https://www.undp.org/content/undp/en/home/news-centre/news/2020/UNDP_issues_new_guidance_for_private_equity_funds_to_look_beyond_bottom_line.html

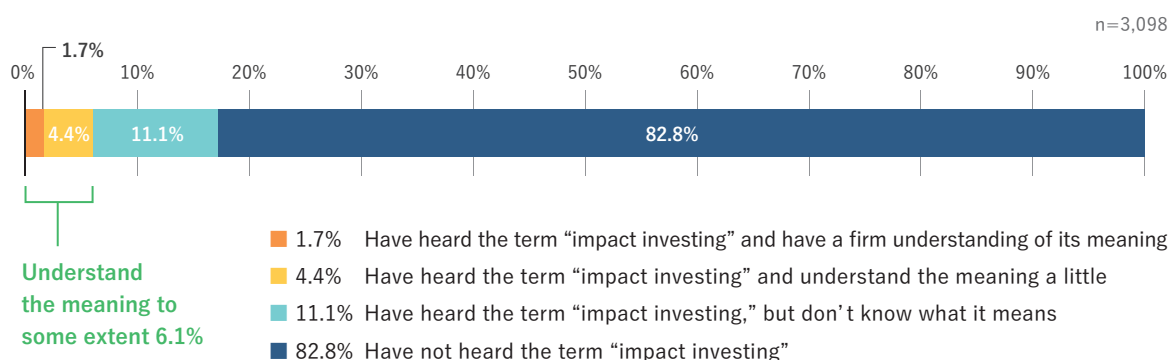
Interest of general consumers in impact investing in Japan

In July 2020, SIIF conducted the *General Consumer Awareness Survey on Impact Investment*²² to 3,098 consumers throughout Japan. The main findings of the survey are excerpted.

① Awareness of impact investing among general consumers

6.1% of respondents had either heard the term “impact investing” and have a firm understanding of its meaning or had heard the term and have some understanding of the meaning. There are actually not very many impact investing opportunities for the retail market. Therefore, increasing the awareness of general consumers is an issue.

Figure 19. Awareness of impact investing

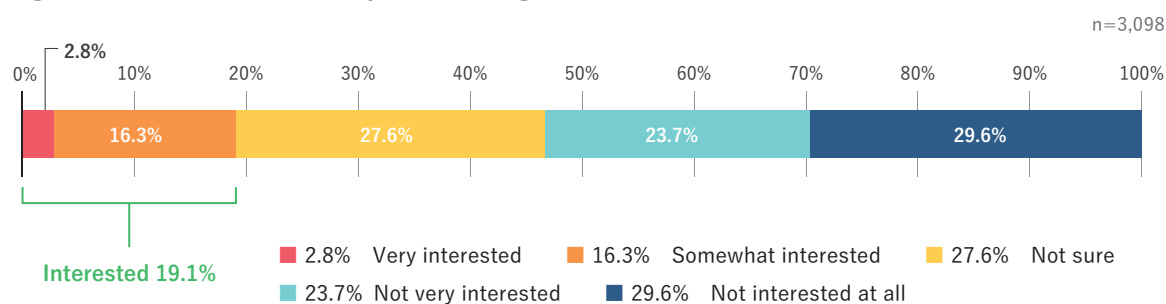


Source: *General Consumer Awareness Survey on Impact Investment 2020* (SIIF)

② Interest of general consumers in purchasing impact investments

Just under 20% of people were interested in impact investing (19.1%). This is three times higher than the percentage of respondents who knew the meaning of “impact investing” (6.1%), which shows that there is a considerable segment interested in utilizing opportunities to solve social issues.

Figure 20. Actual interest in impact investing



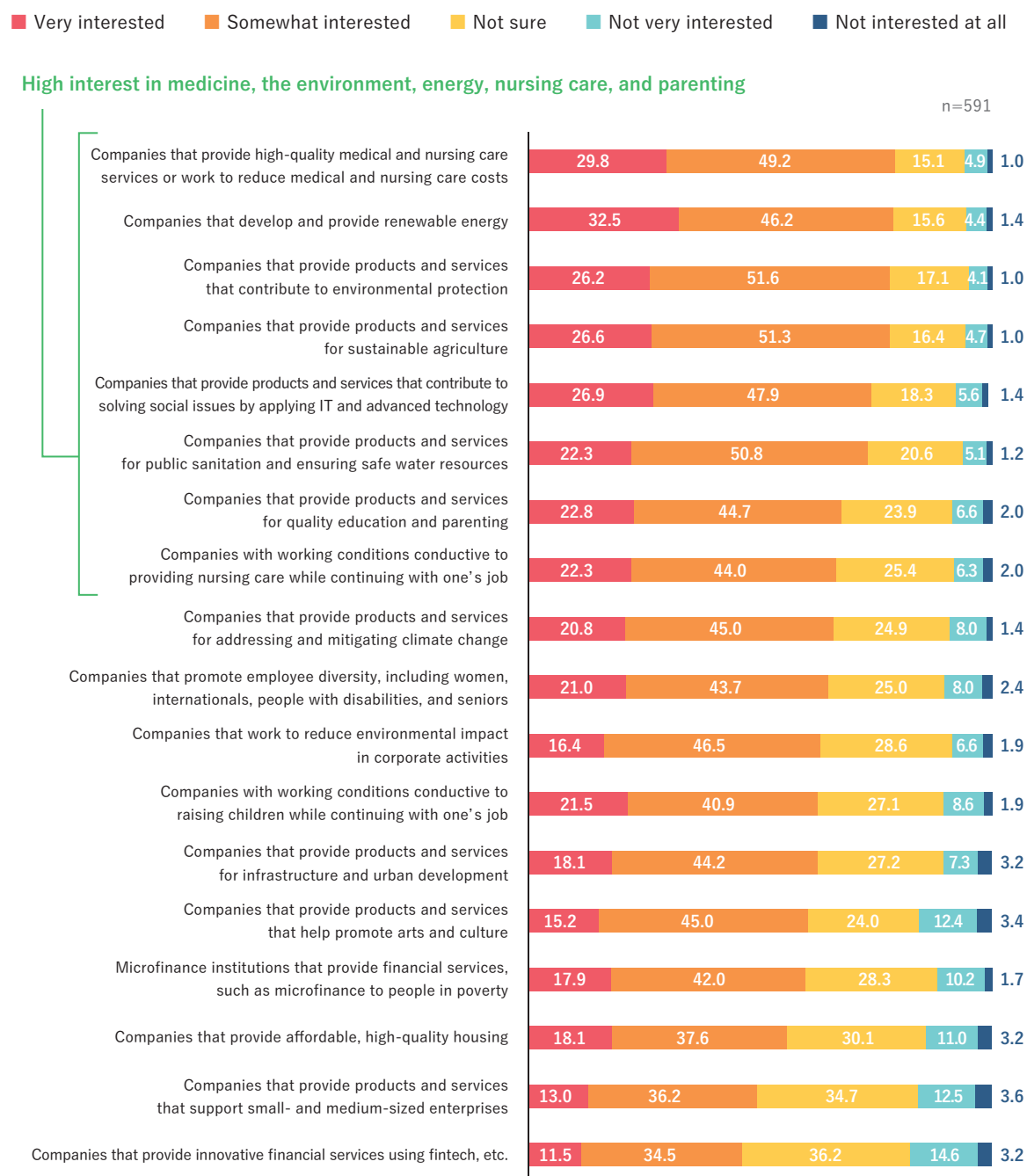
Source: *General Consumer Awareness Survey on Impact Investment 2020* (SIIF)

²² *General Consumer Awareness Survey on Impact Investment 2020* (SIIF) https://siif.or.jp/press_release/2020101202/

③ Social issues of interest to general consumers for impact investing

In response among those who are interested in impact investing to the question about the types of companies to invest in to solve social issues, there was strong interest in investments related to medicine, the environment, renewable energy, nursing care, and childcare. In light of COVID-19, there is strong interest in medicine, but also in the environment, energy and other investment areas related to the SDGs within Japan.

Figure 21. Areas of interest for impact investing



Source: General Consumer Awareness Survey on Impact Investment 2020 (SIIF)

Column 1: Impact Investing Information Hubs in Japan and Overseas

Organizations and networks promoting impact investing in Japan and overseas are introduced.

GLOBAL

Global Impact Investing Network (GIIN) <https://thegiin.org>

An organization conceived and created by the Rockefeller Foundation and other investors to further activate impact investing. Has built a global network of impact investors and conducts standardization of indicators for impact measurement. GIIN also issues the Annual Impact Investor Survey each year and has created IRIS, a catalog of impact investment indicators that is updated over a number of years. Most recently, in May 2019, the organization released IRIS+, a tool set for impact investors to measure and manage their impact included as a part of the IRIS group of indicators.

Publications, events, etc.: Issues *GIIN Annual Impact Investor Survey* (annual), holds GIIN Investor Forum (generally held every year; next forum scheduled for 2022)

Impact Management Project (IMP) <https://impactmanagementproject.com>

An initiative that encompasses over 2,000 organizations started in 2016 by Bridges Fund Management and others. Works to build a global consensus on the methods for measuring, managing, and reporting impacts related to sustainability.

Publications, events, etc.: *Impact-Financial Integration: A Handbook for Investors*, etc.

Operating Principles for Impact Management <https://www.impactprinciples.org>

Operating principles for impact management formulated in April 2019 led by the International Finance Corporation (IFC). The principles are comprised of nine sections and provide a framework for investors to integrate the impact of their investments. As of March 2021, 116 institutional investors in 29 countries have signed on.

Publications, events, etc.: *Investing for Impact: Operating Principles for Impact Management*

SDG Impact, United Nations Development Programme <https://sdgimpact.undp.org>

Established in 2018 by the UNDP with the cooperation of IMP members. Provides standards, tools, and networking opportunities, etc. to enable effective investment for achievement of the SDGs adopted by the United Nations in 2016.

Publications, events, etc.: Publication of *SDG Impact Standards*

United Nations Environment Programme Finance Initiative(UNEP FI) <https://www.unepfi.org>

Partnership between UNEP and the global financial sector. Goal of mobilizing private-sector finance for sustainable development. The organization supports the creation of a financial sector that serves people and the globe while making a positive impact with the cooperation of over 350 member banks, insurance companies, and investors and over 100 supporting institutions.

Publications, events, etc.: Holds Global Roundtable (every other year)

Harvard Business School Impact-Weighted Accounts Initiative (IWA)

<https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx>

A project of Harvard Business School. Promotes the creation of financial accounting that reflects the financial, social, and environmental performance of companies in order to transparently grasp external impact by promoting decision-making by investors and corporate executives.

Publications, events, etc.: *Impact-Weighted Financial Accounts: The Missing Piece for an Impact Economy*, etc.

JAPAN

GSG-NAB Japan <https://impactinvestment.jp>

Established in 2014 as the GSG's branch in Japan. It contributes to the development of the market and ecosystem for impact investing in collaboration with practitioners and experts in diverse fields, including financial, business, social, and academic institutions. GSG-NAB Japan's activities revolve around three pillars of: research and publication, awareness-raising, and networking.

Publications, events, etc.: Publishes *The Current State and Challenges of Impact Investing* (annual) and holds the Impact Investing Forum (annually in the fall)

Social Impact Management Initiative (SIMI) <https://simi.or.jp>

SIMI is a multi-sector initiative for promoting impact management in Japan through the coordination of its diverse members, including business operators, capital providers, intermediaries, government agencies, intermediate support organizations and think tanks, assessors, and researchers, succeeding the original organization founded in 2016 (formerly called the Social Impact Measurement Initiative). There are over 160 member organizations as of January 2020.

Publications, events, etc.: *Social Impact Management Guidelines*, etc.

Impact Investment Study Group (co-sponsored by Financial Services Agency and GSG-NAB Japan)

<https://impactinvestment.jp/activities/fsa-study.html>

Organizes the Impact Investment Study Group for financial market professionals and government personnel, etc. Goal of deepening understanding between financial market professionals and the government with respect to impact investing, clarifying the significance of impact investing initiatives for solving social issues in Japan and overseas, as well as related issues, and discussing how to promote impact investing for the sustained development of Japan's financial industry.

Positive Impact Finance Task Force (Ministry of the Environment)

http://greenfinanceportal.env.go.jp/policy_budget/esg_highlevelpanel/pif_taskforce.html

Sponsored by the Ministry of the Environment and made up of financial market professionals and others, the task force compiles basic approaches to positive impacting finance and holds discussions aimed at establishing a guide to green impact measurement.

Chapter 2 : Impact Investing Market in Japan

Chapter 2 provides an overview of the impact investing market in Japan based on responses to the *Questionnaire Survey regarding Impact Investment (2020)*, presenting the current situation and challenges surrounding the market. The Chapter first describes the survey method and the inclusion criteria of impact investing. It then presents the impact investment asset under management (“impact AUM”) in Japan that have been identified through the survey, along with the results of responses to the survey.

Survey Method

■ Summary of the method

- A questionnaire survey. The respondents selected a survey form either in print or Microsoft Excel to provide their answers.
- Survey period: September 2020 - December 2020
- Number of collected survey forms: 75 organizations / number of distributed survey forms: 591 organizations (collection rate: 12.7%)
 - To survey institutions that may be connected to impact investing, this Survey, just as in FY2019, covered a wide range of institutions, including those that have declared compliance with the Principles for Responsible Investment and the Principles for Financial Action for the 21st Century, among others.
 - This Survey consulted the GIIN Annual Impact Investor Survey, which defines qualified respondents as those who “manage at least 10 million dollars in impact investing assets and/or have made at least five impact investments.” Given that Japan’s impact investing market is still in an early stage, this Survey does not specify any qualifications.
 - ResearchWorks Corporation provided assistance in conducting the Survey and collecting the forms.
- Target period for the Survey: As of the end of FY2019 (“the last fiscal year-end” on the survey form) and the plans and forecasts for FY2020 (“this fiscal year” on the survey form).

■ Design of the survey form

To make the analysis comparable with trends in international impact investing markets, the survey form for the *GIIN Annual Impact Investor Survey 2020*²³ was used as a reference in order to make major changes to the last year’s survey form. The fully updated form also includes certain details in the *Questionnaire Survey regarding Impact Investment (2019)*²⁴.

Structure of the survey form:

- Attributes of the responding organizations (e.g., business category)
- Results and plans of the impact investing (e.g., investee’s sectors, types of organizations, asset classes, regions)
- Status of impact measurement and management
- Present state of the impact investing market in Japan and perceived challenges

23 *GIIN Annual Impact Investor Survey 2020* (Global Impact Investing Network, GIIN) :

<https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf>

24 The survey forms used for the past Questionnaire Surveys, including that for FY2019, were also created using details in the GIIN Annual Impact Investor Survey as a reference.

Notes:

- **The Survey is not meant to make an accurate market estimate.**

The Survey results are the accumulation of responses to the questionnaire returned by mail or in electronic form. They are not meant to provide an estimated size of the impact investing market in a strict sense.

- **Responses are essentially self-reported**

The results are based on self-reported answers from the responding organizations, just as the GIIN Annual Impact Investor Survey. That said, when any response about the state of impact investing was partial or incomplete, or when any inconsistent responses were found, a follow-up interview was conducted with the organization by email or phone to have a complete and accurate answer.

- **Data cleaning and accuracy**

The survey team removed or corrected responses that contain inconsistency or misunderstanding to the full extent possible and took great care to prevent a double-counting of AUM. These efforts, however, do not guarantee complete accuracy. As for some of the weighted results of impact AUM, the responding organizations with assets under management that make up a high percentage of the overall impact AUM are treated as “outliers” to be excluded because they would comprise a huge proportion of the weighted results.

Inclusion Criteria

Definition of “impact investing” used by the questionnaire

The definition of “impact investing” used for the Questionnaire Survey and presented to respondents includes both of the following.

- **Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return^(*1) 25**

*1 Any financial transactions, including investments (stocks and bonds), loans, leases, among others, that seek monetary returns are collectively called “investments.” Donations, subsidies, and grants are excluded.

- **Impact measurement^(*2) is conducted before and after making investments (who does the post-investment measurement does not matter)**

*2 Impact measurement is designed to quantitatively and qualitatively identify social and environmental impacts to add a value judgment to a business or activity (e.g., so that the judgment is used as a reference point for an investment decision, regular monitoring and/or dialogue with each investee company during an investment period, and/or post-investment reporting).

25 The description was changed from the one used for the 2019 Survey by applying the words in the *GIIN Annual Impact Investor Survey 2020*. The GIIN questionnaire survey defines the term as “Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. They can be made across asset classes, in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the investors’ strategic goals.” The underlined sentence is presented in the survey form, and the remaining portion in the letter sent with the survey form. The definition used for the 2019 Survey was, “Impact investing refers to investment behavior that is intended to solve social and/or environmental issues while pursuing financial returns. An impact investing organization conducts impact assessment, which includes social impact measurement, before and after making an investment.”

Definitions of related terms

The Questionnaire Survey presented the definitions of terms related to impact investing as below:

Figure 22. Terms related to Impact Investing

Term	Definition
Impact	Social and/or environmental change or effect as a result of a business or activity, whether it is long- or short-term
Impact measurement	The act of quantitatively and qualitatively identifying a social and environmental impact in order to add a value judgment to a business or activity
Impact management	Management that aims to achieve a greater impact by incorporating impact measurement into the process of business operation in order to make improvements on a business and to make decisions based on acquired information

Inclusion criteria applied to impact AUM

While the responses to the Questionnaire Survey were self-reported ones, impact AUM were classified to be included or excluded based on responses to the questions that asked about criteria for impact investing. The inclusion criteria, which remains the same as those specified in the FY 2019 Survey, consist of ①-③ below, and all of them must be met.

① The responding organization is a corporation based in Japan.

This Survey is on impact investing in Japan. Hence, responding organizations must be corporations based in Japan. Note that the investee companies may be located outside of Japan. If a respondent is a multinational corporation, its responses must be about impact investing activities by its incorporated Japan office.

② The responding organization uses output²⁶ and/or outcomes²⁷ as metrics for impact measurement.

This year's Survey, just as the FY 2019 Survey, did not specify what must be measured about a business, including whether the measurement of business outcomes was a requirement and whether output measurement alone would do. Since there is no international standard for metrics that all countries follow, what should be included in the measurement will continue to be explored.

²⁶ "Output" refers to direct results of organizational or business activities such as products and services. E.g., the number of times the activities have been done; the duration of activities; the number of participants.

③ The responding organization conducts impact measurement before making an investment decision and after making the investment.

Measurement before an investment decision is made must be conducted by the investor organization, an investment manager, investment fund provider, or an outsourced third-party assessment organization. Post-investment measurement may be conducted by any qualified person, such as a financial intermediary (e.g., a securities firm) other than those stated above, bond issuer, or business operator that receives the investment or loan.

For consideration of inclusion criteria

This Survey conforms to internationally used criteria for impact investing that have the four key elements listed below. The GIIN presents these key elements as Core Characteristics of Impact Investing²⁸. Note that the GIIN Annual Impact Investor Survey does not state these key elements. Instead, it presents only the definition presented in the footnote on the previous page and asks for self-reported responses.

**Four Key Elements of Impact Investing
Stated in “Core Characteristics of Impact Investing” (GIIN)**

① INTENTIONALITY

Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.

② FINANCIAL RETURNS

Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.

③ RANGE OF ASSET CLASSES

Impact investments can be made across asset classes.

④ IMPACT MEASUREMENT AND REPORTING

A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

27 “Outcomes” refer to changes and benefits as a result of the output of a business or project. These changes are brought to beneficiaries as the effects of a program or activity that has been carried out. E.g., vocational skills that have been acquired, a positive mental attitude, new employment.

28 Core Characteristics of Impact Investing (GIIN) https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

These GIIN's four key elements above were considered when the questions (questions for screening) that asked about inclusion criteria of impact investing in this Questionnaire Survey were designed.

① INTENTIONALITY: Impact investments intentionally contribute to social and environmental solutions.

Since it is difficult to judge in a tangible way whether the “intention” exists, the Survey only presented a definition, instead of giving questions about the intention.

② FINANCIAL RETURNS: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate.

The answers that the Survey asked for were solely about investments (not about donations, subsidies, or grants) that seek returns, as mentioned in the footnote on the definition. The questions in the Questionnaire were designed to ask about expected values of returns.

③ RANGE OF ASSET CLASSES: Impact investments can be made across asset classes.

Just as ②, the Survey asked solely about investments that seek returns, and the questions in the Questionnaire were designed to ask about asset classes.

④ IMPACT MEASUREMENT: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

As explained in “Inclusion criteria applied to impact AUM” above, the questions were designed to ask about the types of metrics for measurement and the timing of the measurement (at the time of making an investment decision and after making an investment).

Key points for consideration of future inclusion criteria

The angles detailed below were not included as inclusion criteria for this year's Questionnaire Survey and the market estimate survey discussed later. However, they may serve as central focuses in the process of facilitating improvements on impact investing in Japan. We may further explore these possible focus points and, while considering practical issues and actions, incorporate them into the inclusion criteria from the next fiscal year onward, or discuss them as efforts that should be encouraged if they are not included in the criteria.

1) How to confirm a (final) investor's “intentionality”

1-1) Sharing the details of impact measurement

In the case of impact investing that uses an intermediary (asset manager or investment fund provider) between the final investor and an investee, the details of the impact measurement conducted by the intermediary must have been shared with the final investor in order to determine that the final investor, institutional or individual, has had “the intention to generate an impact” and made “a decision based on the impact.” Note that this does not apply if the final investor has conducted impact measurement on its own, even when an intermediary is used.

1-2) Focusing on the “marketability(commodification)” of impact investing

During an interview with an overseas expert in the process of this Survey, a discussion took place as to which term should be used, “impact investing (by impact investors)” or “impact investment,” when the subject of the inclusion criteria of impact investing was covered. The gerund “impact investing” focuses on the entity that performs the act of investing and on the entity’s intention, while the noun “impact investment” focuses more on the act of investment itself and the marketability of each investment. The first of the four key elements of impact investing that the GIIN presents is “the intention to generate an impact.” Currently, the calculation of impact AUM based on the Questionnaire Survey focuses on an investor’s intention, while the maximum estimate in the market also considers the “marketability” of the investment. As the definition of impact investing is premised on an investor’s intention, discussion for confirming the criteria of impact investing is required again.

2) Quality of impact measurement

2-1) Types of metrics to use and causal relationships between output and impact/outcome

This year’s Survey includes impact investing that uses “output only” as metrics. However, given that impact investing essentially aims to realize an impact in the form of a social and environmental change or effect as a result of a business or activity, outcome should probably be set as metrics. However, if a causal relationship is proven between the output and the hoped-for impact or outcome, using “output only” as metrics may be acceptable.

2-2) Range of impact investing: time and space

For impact investing to serve as a means of fundamentally solving social issues going forward, specific details of an “impact” as metrics should be clarified in accordance with the IMP framework, that is, how long it takes for an “impact” to emerge (time), and to what extent the metrics cover geographical regions, society, and the global environment (space).

If emergence over a shorter period as a KPI of an impact, that would be similar to output and approximate to a mere KPI of an investee organization’s business. If an impact is limited to that of an investor or on direct stakeholders of an investor, the investing would approximate to an activity for its own company’s survival, rather than for the sustainability of a region, society, or the global environment. And in some cases, a new product or service that is a mere result of changes in consumer needs or preferences may be linked to the model to a social impact by making a logic model. In the stage where an investor is asked to clarify what social/environmental issue an impact should be meant and who the beneficiaries will be, the details of the metrics set at the impact investing should also be examined.

2-3) Setting target values for metrics

If setting and monitoring impact metrics is inadequate as a drive to generate an impact, setting a target value for metrics may become standard. Studying how much has been achieved toward a target value would provide an investor with a good indication of whether an impact investing has been successful or not.

3) Relations with ESG investing

3-1) Comprehensiveness of impact measurement and management

“Comprehensiveness” here refers to two actions: (1) Pursuing both of the creation of a positive impact and reduction in a negative impact, and (2) Comprehensively assessing, for example, corporate activities across supply chain, rather than individual projects run by an investee company.

Principle 1 of the Principles for Positive Impact Finance presented by the United Nations Environment Program Finance Initiative (UNEP FI) states, “It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.” The “positive contribution” in this statement can probably be understood as the “positive impact” in the definition of impact investing presented by the GIIN.

However, it would be practically extremely difficult that “potential negative impacts to any of the pillars” are “duly identified and mitigated,” and that “a positive contribution” is delivered to “at least one of the three pillars of sustainable development (economic, environmental and social),” in each project launched by an individual investee company.

Let us suppose that impact investing has the following two aspects:

- ① Internalization of positive market externalities
- ② Internalization of negative externalities

Even with these two aspects, in order to mitigate negative impacts through the internalization of negative externalities as stated in ②, and make a positive contribution, impact investing is expected to set impact metrics for comprehensiveness of the corporate activities by each investee company, rather than for a single project by the investee company.

3-2) Additionality of an impact

It is important to confirm that an additional impact is generated through impact investing. “Additionality” refers to how much the impact investing has contributed to the creation of an additional positive impact, or to reduction in a negative impact, on the pre-investment condition (baseline), when the case in which the impact investing is not made (counterfactual) is compared with the case in which the impact investing is made. It is required that a net impact generated by an impact investing is strictly measured.

Impact AUM

As the results of the Questionnaire Survey and the market estimate survey described later, the scale of the impact investing is presented with three types of figures.

1. Impact AUM, as ascertained by the Survey Questionnaire: 512.6 billion yen

*This figure is calculated in this year's report using the same method as previous years' reports.

The figure is the sum of the investment balances of the 26 organizations that responded to the *Questionnaire Survey regarding Impact Investment (2020)* and met the aforementioned inclusion criteria for impact investing based on self-reporting. Which is to say, after the investing is recognized as impact investing, the figure represents the sum of investment balances for which impact measurement was conducted both before and after the investing.

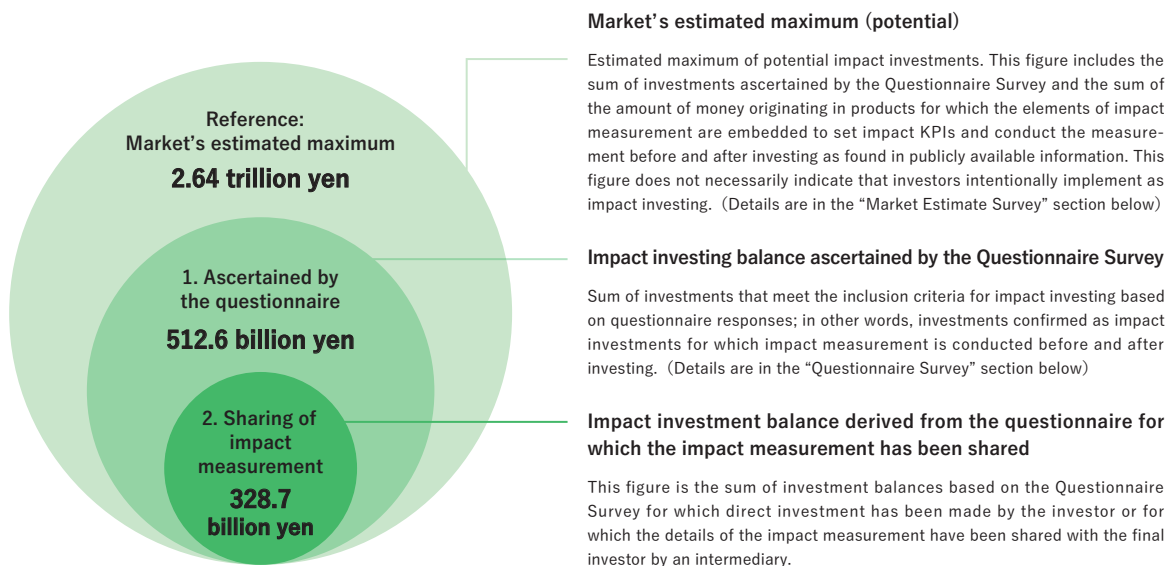
2. Of the impact AUM ascertained by the Questionnaire Survey, the AUM for which the impact measurement has been shared with investors: 328.7 billion yen

The figure is the sum of the AUM based on the AUM in the Questionnaire Survey (1. above) for which direct investment has been made by the investor or the measurement has been shared with the final investor by the intermediary. In order to ensure that it is the "intention (to generate an impact)" of the final investor, in cases in which the intermediary is the one that makes the impact measurement, it should be necessary to share the details of the measurement with the final investor.

Reference figure: Maximum estimate (potential) in the market: 2.64 trillion yen

This figure includes the sum of investments ascertained by the Questionnaire Survey and the sum of the amount of money originating in products for which the elements of impact measurement are embedded to set impact KPIs and conduct the measurement before and after investing as found in publicly available information. This figure does not necessarily indicate that investors intentionally implement as impact investing. For details, refer to the "Market Estimate Survey" section below.

Figure 23. Scale of Impact Investment Balance



We will introduce the figures of global impact AUM for the purpose of comparison with the scale of impact AUM in Japan. See “Column 2: Introduction of International Impact Investing Surveys” for these impact investing surveys.

According to the *GIIN Annual Impact Investor Survey 2020*²⁹ (GIIN),

- The impact AUM grasped in the questionnaire survey equivalent to 1. above was 404.0 billion dollars (approx. 44 trillion yen).
- The impact AUM equivalent to the Reference figure above as the market’s maximum was 715.0 billion dollars (approx. 79 trillion yen).

According to the “Growing Impact - New Insights into the Practice of Impact Investing”³⁰ (IFC),

- The impact AUM equivalent to the Reference figure above as the market’s maximum was 505.0 billion dollars (approx. 56 trillion yen).

List of institutions that make impact investing and investment cases

Figure 24. List of organizations that are engaged in investment equivalent to impact investing judged from the responses to the questionnaire survey³¹

Industry	Organizational name	Example of impact investing
Asset managers	Asset Management One Co., Ltd.	Management of portfolio of impact investing in exchange-traded stocks in Japan
	Kamakura Investment Management Co., Ltd.	“Yui 2101” (investment in traded and privately held companies through public investment trusts)
	Nomura Asset Management Co., Ltd.	Nomura ACI Advanced Medical Impact Fund, Global Food-related Equity Open “Smart Food” (investment in listed stocks through public investment trusts)
	Sumitomo Mitsui Trust Asset Management Co., Ltd.	Impact investing funds investing in exchange-traded stocks in Japan
	Mitsubishi Corp. - UBS Realty Inc.	Real estate investment trusts and asset management for investment corporation

29 (Reposted) GIIN Annual Impact Investor Survey 2020 (Global Impact Investing Network, GIIN):

<https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf>

30 Growing Impact - New Insights into the Practice of Impact Investing (International Finance Corporation):

<https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing-Impact.pdf?MOD=AJPERES&CVID=naZESit9>

31 Upon preparation of the list, we extracted only those organizations (part) that satisfy the aforementioned impact investing requirement and agreed to be mentioned in this report. Therefore, the list does not cover all actions included in the impact AUM. We referred to the content of the responses to the relevant questions in the questionnaire upon classification of industry.

32 SIB denotes social impact bonds and it is a type of performance-linked private sector consignment contracts. A private entity to which the administration outsourced the project to raise funds from financial institutions and investors and repays return depending on the amount paid (consignment fees) linked to the results by the administration.

Industry	Organizational name	Example of impact investing
Venture capitals	Energy & Environment Investment, Inc.	EEI Fund 4 Innovation and Impact Investing Limited Partnership (private equity impact investing fund)
	Shinsei Corporate Investment Limited	Japan Impact Investment I Limited Partnership “Child-care Support Fund,” Japan Impact Investment II Limited Partnership “HATARAKU FUND” (private equity impact investment fund)
	Future Venture Capital Co., Ltd.	Osaka Social Issue Solving Fund in collaboration with Osaka Shinkin Bank (private equity impact investment fund)
Insurance companies	The Dai-ichi Life Insurance Company, Limited	Impact investing(private equity, listed stocks, PE funds),SIB projects
Government-run development agencies and financial institutions	Japan International Cooperation Agency	Overseas loans and investments
Banks and trust banks	Mizuho Bank, Ltd.	Japan Impact Investment II Limited Partnership “HATARAKU FUND” (private equity impact investment fund), SIB projects ³²
	Sumitomo Mitsui Banking Corporation	SDGs loans, SIB projects
	Sumitomo Mitsui Trust Bank, Limited	Positive Impact Finance
Credit associations, credit unions	Dai-ichi Kangyo Credit Cooperative	Social business support loans
Securities companies	Daiwa Securities Group Inc.	World Impact Investment Fund “Better World” (investment in listed stocks through public investment trusts)
Foundations	KIBOW Foundation	KIBOW Impact Investment Fund (private equity impact investment fund)
	Kyoeiki Investment Fund Japan	Investment in common benefit projects related to disaster recovery support (private equity investment, private placement bonds)
	The Sasakawa Peace Foundation	Blue Orchard Micro Finance Fund (BOMF), Japan ASEAN Women Empowerment Fund (JAWEF) (loans, government and corporate bonds)
	The Social Innovation and Investment Foundation	Various SIB (Kobe City, Hachioji City, Okayama City, Toyonaka City, Hiroshima Prefecture, etc.), Japan Impact Investment II Limited Partnership “HATARAKU FUND” (private equity impact investment fund), direct investment in Plus Social Investment Co., Ltd. and ADDRESS
Other organizations	Crowd Credit, Inc.	Microfinancing, financing, solar power generation, and social lending to projects by female entrepreneurs, etc. in Central and South America, Africa, Asia, and Middle East, etc.
	Digisearch & Advertising Inc.	Angel investment, silent partnerships, share funds, SIB projects
	Plus Social Investment Co., Ltd.	SIB projects (Saijo City, Higashiomi City, Okayama City, etc.), Komatagawa Hydroelectric Power Plant upgrade project (silent partnership)
	Sophia School Corporation	Japan International Cooperation Agency bonds, African Development Bank bonds, bonds issued by the University of Tokyo (social bonds), Latin American microfinancing funds, Impact investment funds in India, Global Green Bond Fund, Private global stock impact investment funds, U.K. offshore wind power project, Low-carbon index-linked funds

Questionnaire Survey Result

From next page, we introduce the result of the *Questionnaire Survey regarding Impact Investment (2020)*. In addition to the aggregation of the number of all the responding institutions (n=75), we also performed some analysis based on the two types of subgroups described below.

Subgroup ① institutions engaged in impact investing / institutions not engaged in impact investing

The questionnaire survey also targets institutions that may engage in impact investing in the future, so some responding institutions have not engaged in impact investing as of the writing of this report. Organizations that met the aforementioned inclusion criteria for impact investing based on self-reporting are categorized as “institutions engaged in impact investing,” while those which did not submit self-report or did not meet the criteria are categorized as “institutions not engaged in impact investing.”

Subgroup ② equity-focused / debt-focused

The organizations categorized as “institutions engaged in impact investing” in subgroup ① were categorized into equity-focused and debt-focused based on their industry categorization. Of the “institutions engaged in impact investing,” the ratio of the investment balances of the two organizations is high among all institutions engaged in impact investing, and they are treated as outliers and excluded from the analysis of subgroup ②. For this reason, the sum of equity-focused organizations and debt-focused organizations do not match count n of the “institutions engaged in impact investing.”

Figure 25. Number of responding institutions in analysis subgroups (n) and the ratio to the total number of the respondents (%)

		n	%	
Analysis axis ①	Total number of respondents	75	100%	
	Institutions engaged in impact investing	26	35%	
	Institutions not engaged in impact investing	49	65%	
		n	%	
Analysis axis ②	Institutions engaged in impact investing	26	100%	
	Equity-focused	17	65%	
	Debt-focused	7	27%	

*As described earlier, the two organizations treated as outliers were excluded from analysis axis ②, and the sum of count n does not match the total.

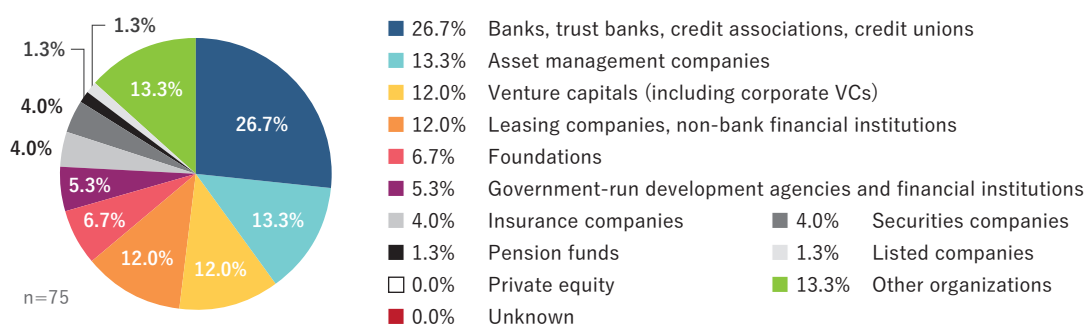
Features of Organizations That Responded to the Questionnaire Survey

This section confirms when and how the “institutions engaged in impact investing” (impact investing institutions) that meet the aforementioned inclusion criteria began working on impact investing and with what motivation, upon confirming the industry type of the institutions that responded to the *Questionnaire Survey regarding Impact Investment (2020)*.

Industry type of all organizations that responded to the questionnaire survey

- Of all organizations that responded to the questionnaire survey, those who answered “banks, trust banks, credit associations, credit unions” answered were the largest (27%) followed by “asset managers” (14%).

Figure 26. Industry type of all organizations that responded to the questionnaire survey

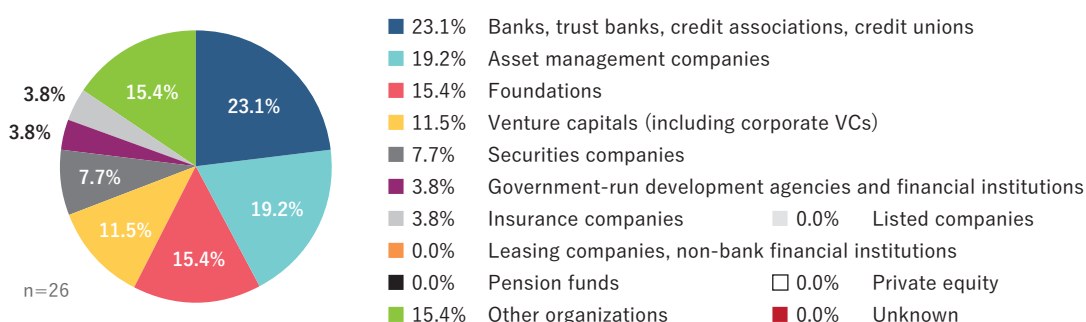


Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “2. Please select one answer that most accurately describes your industry (Single Answer, hereafter “SA”).”

Industry type of institutions engaged in impact investing

- When the organizations that met the aforementioned inclusion criteria for impact investing alone are extracted, those who answered “banks, trust banks, credit associations, credit unions” were the largest (23%) followed by “asset managers” (19%).
- In Figure 1 of the GIIN Annual Impact Investor Survey 2020³³ (hereinafter referred to as “GIIN Survey 2020”), the answer “Asset managers: for-profit” (51%) accounted for the majority of the organizations that responded to the survey (n=294).

Figure 27. Industry type of organizations engaged in impact investing³⁴



Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “2. Please select one answer that most accurately describes your industry (SA).”

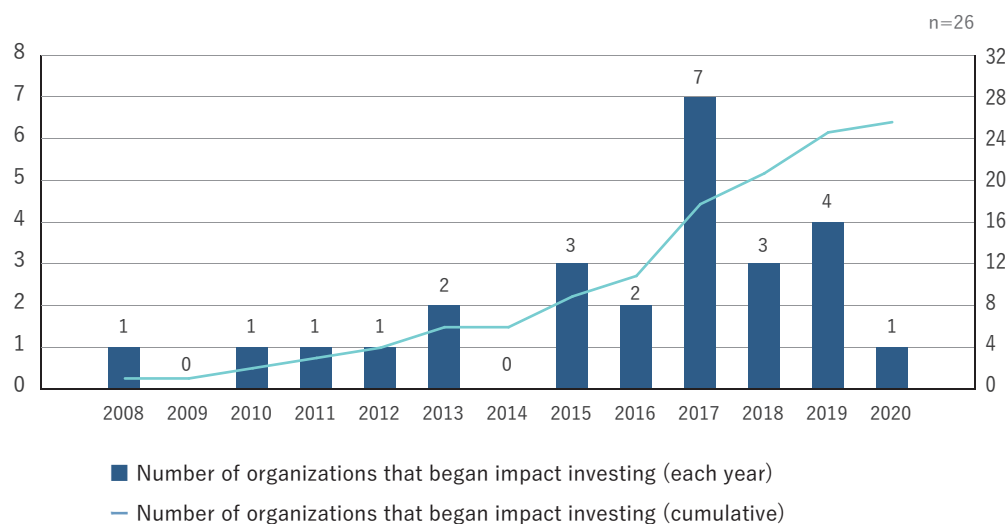
³³ GIIN Annual Impact Investor Survey 2020 (<https://thegiin.org/research/publication/impinv-survey-2020>) Unless otherwise noted below, the GIIN Survey 2020 refers to this source.

³⁴ Figure 27 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria.

Year in which organizations began engaging in impact investing

- Year 2008 was the earliest when one of the organizations began engaging in impact investing and many organizations started it in 2017 (seven organizations).
- In the GIIN Survey 2020 (Figure 4), 64 organizations of the responded organizations (n=294) were already engaged in impact investing before 2000. Also, almost 40% of the total were already engaged in impact investing as of 2007.
- The global comparison above showed that there was about 10 years of delay in development of impact investing in Japan.

Figure 28. Year in which organizations began engaging in impact investing ³⁵



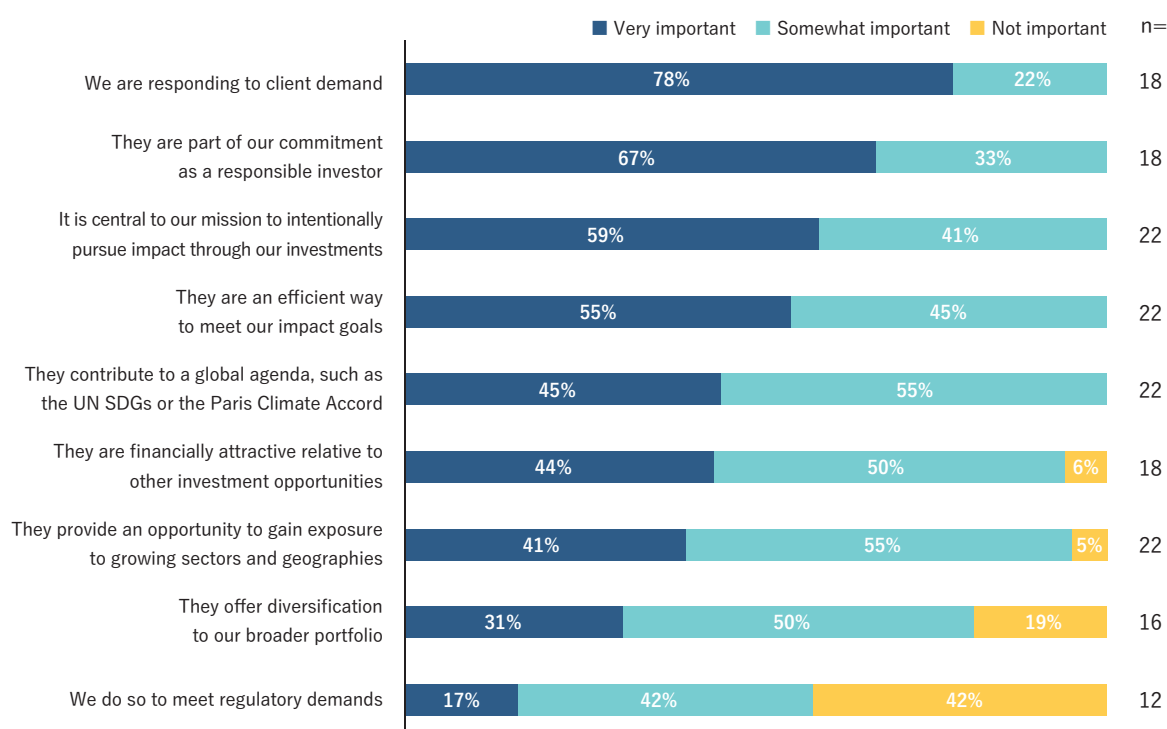
Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “A1. Please answer the year in which you began engaging in impact investing. (Numerical Answer, hereafter “NA”)”

Motivation for engaging in impact investing

- As a motivation for engaging in impact investing, the highest ratio of respondents considered “responding to client demand” (78%) as “very important” motivations, followed by “their commitment as responsible investors” (67%).
- In the GIIN Survey 2020 (Figure 6), the highest ratio of respondents considered both “impact being central to their mission” and “their commitment as responsible investors” as “very important” motivations (both 87%).
- The above global comparison revealed that impact investors in Japan tended to cite “more customer oriented” and responding to customers’ demand as their motivations for engaging in impact investing.

³⁵ Figure 28 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria.

Figure 29. Motivation for engaging in impact investing ³⁶



Source: This figure has been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) – Question: “D4. How important are each of the following in terms of motivating your organization to engage in impact investing? (SA)”

Progress and Challenges of Impact Investing in Japan

This section provides an overview of the progress of Japan’s impact investing market and the challenges facing the country going forward based on responses to the *Questionnaire Survey regarding Impact Investment (2020)*.

Stages of Japan’s impact investing market evolution

- Regarding the stages of Japan’s impact investing market evolution, a clear majority of respondents considered that the market is “about to take off” (79%), and some considered the market is “in its infancy” (21%).
- To the question about the stages of the international impact investing market evolution in the GIIN Survey 2020 (Figure 9), a clear majority of respondents answered that the market is “growing steadily” (69%), and some answered that the market is “about to take off” (21%).
- As mentioned in “Year of first impact investing (Figure 28),” this Survey confirmed that Japan is one stage behind in the evolution of the impact investing market when internationally compared, and its market is about to take off.

³⁶ Figure 29 shows the results only from the responding organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Some items do not sum to 100% due to the processing of decimal points.

Figure 30. Stages of Japan's impact investing market evolution ³⁷

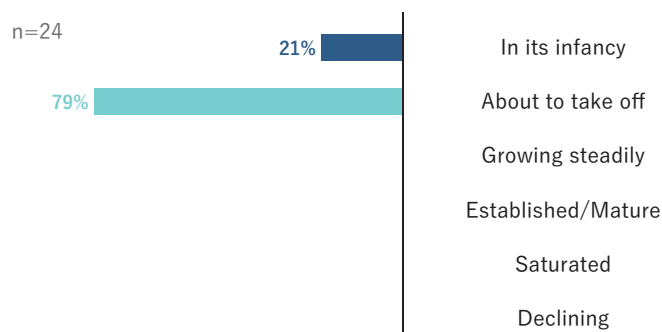
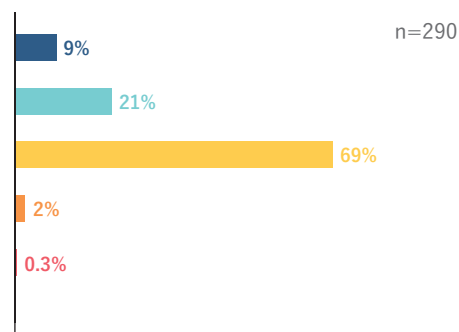


Figure 31. Stages of the international impact investing market evolution



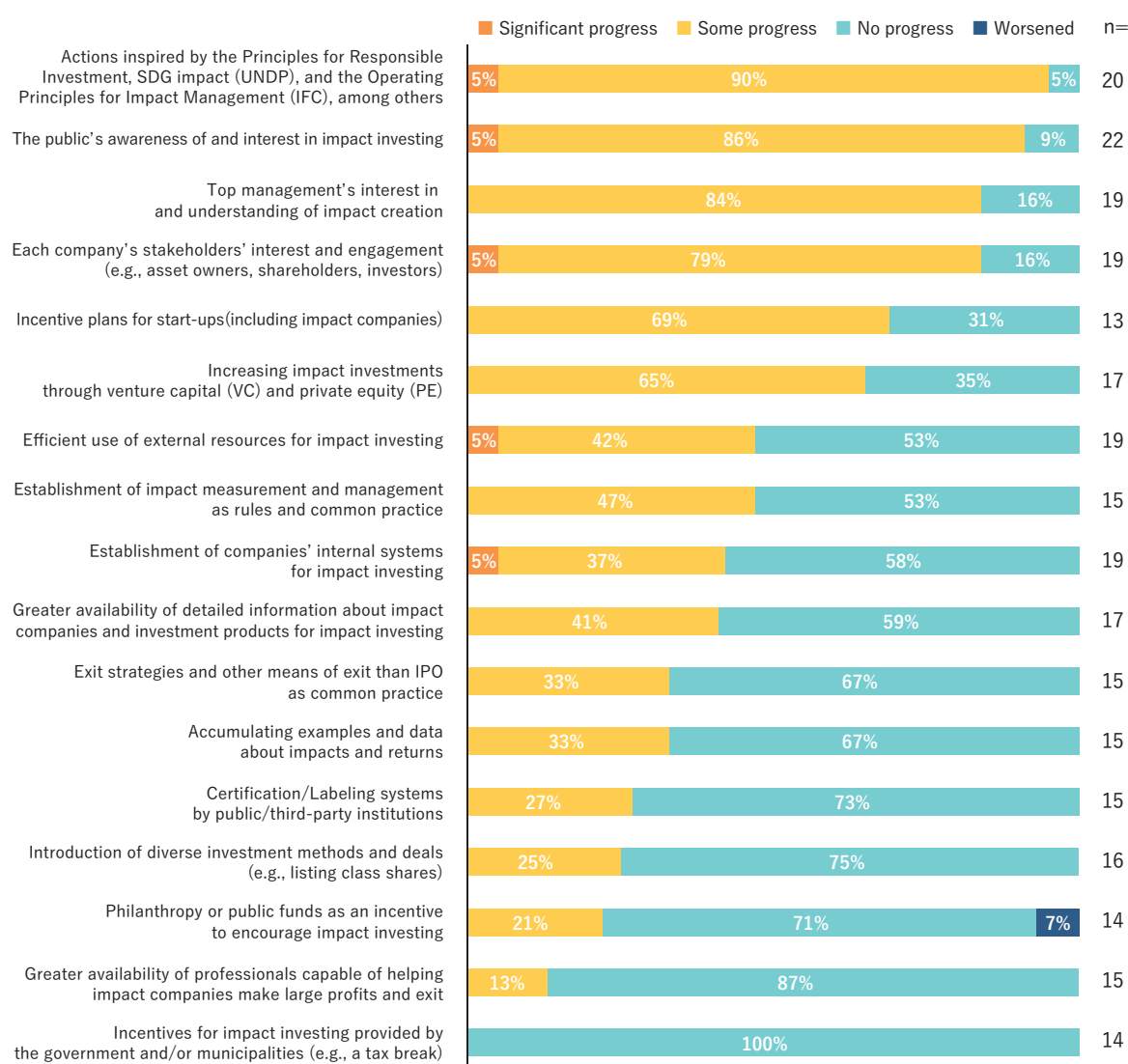
Source: These figures have been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) and GIIN Annual Impact Investor Survey 2020. – Question: “D5. How do you see the state of Japan's impact investing market? Please select the answer that most accurately describes your view. (Single Answer, hereafter “SA”)”

Progress of Japan's impact investing market over the past one year

- The majority of respondents responded that Japan's impact investing market had progressed over the past one year in “actions inspired by the Principles for Responsible Investment, SDG impact (UNDP), and the Operating Principles for Impact Management (IFC), etc.” (“significant progress”: 5%; “some progress”: 90%), followed by the response that progress had been made in “the public's awareness of and interest in impact investing” (“significant progress”: 5%; “some progress”: 86%).
- In the GIIN Survey 2020 (Figure10), many respondents noted that progress had been made over the past one year in “research on market activity, trends, performance, and practice” (“significant progress”: 42%; “some progress”: 55%) and “sophistication of impact measurement and management practice” (“significant progress”: 39%; “some progress”: 59%)³⁸
- Respondents in the international markets noted “research on market activity and practice” and “sophistication of impact measurement and management” as the areas of progress over the past one year. It is expected that Japan's market may make progress in impact investing and measurement coupled with the sophistication of impact management practice going forward.

³⁷ Figure 30 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

³⁸ We referred the survey form for the GIIN Survey 2020 to make the Questionnaire Survey regarding Impact Investment (2020) (GSG National Advisory Board) as comparable with the GIIN Survey 2020 as possible. Considering the level of the growth of Japan's impact investing market, however, we did not use exactly the same wording in this question as that in its nearest equivalent in the GIIN Survey 2020.

Figure 32. Progress of Japan's impact investing market over the past one year³⁹

Source: This figure has been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) – Question: “D12. How do you view the progress that Japan's impact investing market in general has made over the past one year? (SA for each statement)”

Progress of Japan's impact investing market⁴⁰

The Survey asked impact investing institutions to comment on “the progress of Japan's impact investing market over the past one year.” Some of the responses to this open-ended question are provided below. These comments indicate that, while recognition and acknowledge of impact investing is becoming expanding and deepening, the number of the sharing of practical examples is small, including successful cases, and the whole industry will need to continue gaining practical knowledge.

39 Figure 32 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided the answer “We don't know/NA” or no answer were excluded. Some items do not sum to 100% due to the processing of decimal points.

40 Some of the responses to Question D12 SQ1. “Please write your comment about the progress (of Japan's impact investing market over the past one year)” were edited and excerpted without changing their meanings. The underlines were added by the writer. These comments are the respondents' personal or organizational views and do not represent the view of the GSG National Advisory Board.

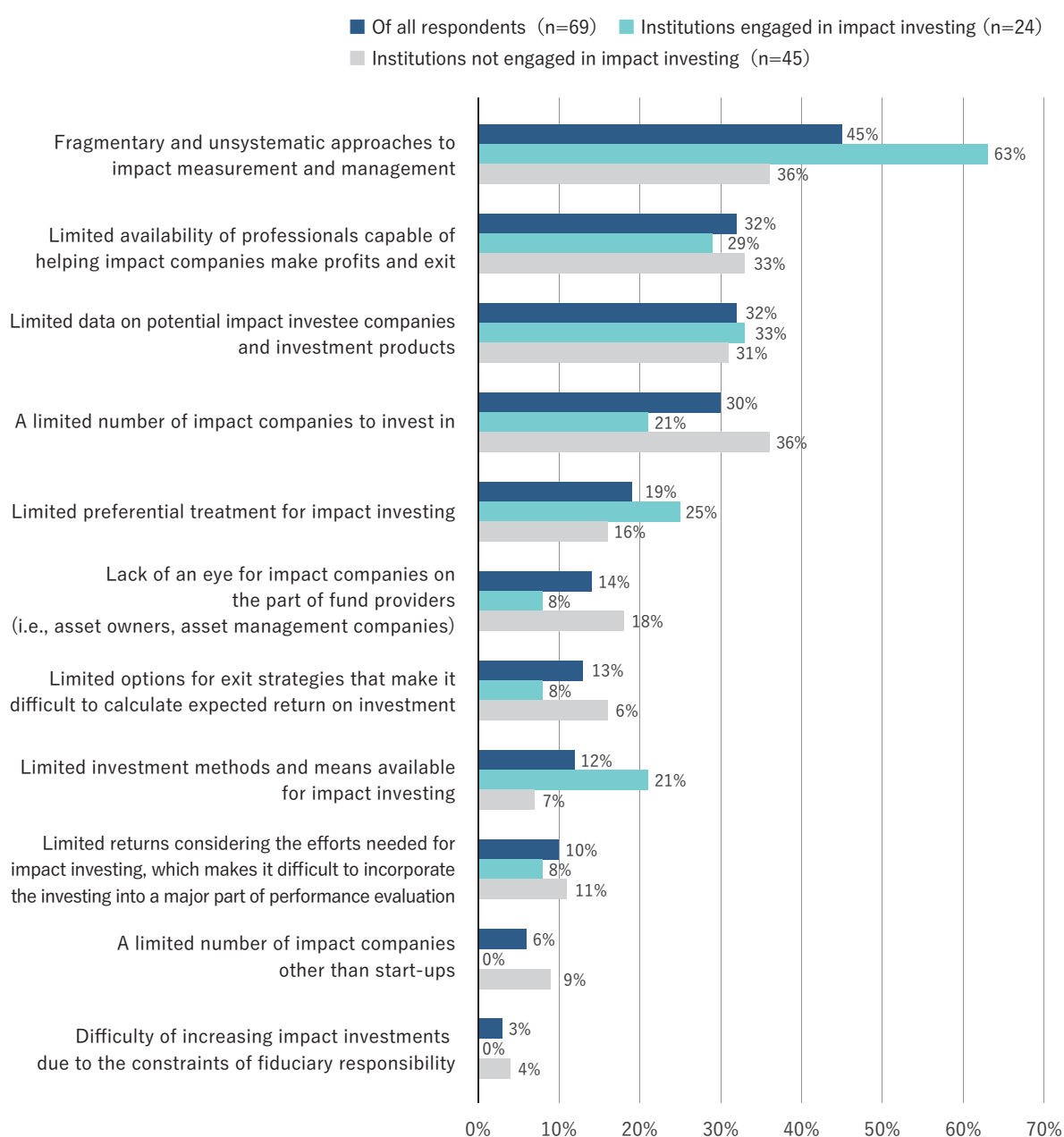
- “ We consider that, while impact investing is increasingly known and there have been interesting developments across the globe, including moves to create new markets and searches for ways to exit impact investing, companies are unable to start impact investing with enough confidence about making profits because there have been only a limited number of shared “successful examples.” ”
- “ We think impact measurement should be standardized and companies should disclose detailed information about impacts so that impact investing will become more common. ”
- “ Businesses have significantly deepened their understanding of impact investing over the past one year. Now, impact measurement should be incorporated into practical business processes to accelerate the efforts for impact investing. In some cases, impacts are measured as investment results in the process of investments that focus on the pursuit of financial returns. Impact investing can be promoted and facilitated by flexibly selecting good practices from cases that may not be considered impact investing in a strict sense. ”
- “ Some progress has been made in the dissemination of information about impact investing by various media, listed companies, and asset managers in Japan. Nevertheless, we have the feeling that a complete cycle of impact investing has not yet established across the investment chain. ”
- “ The involvement of the Financial Services Agency and the Ministry of the Environment has served as a major driving force, and we expect that their support will continue as part of the government’s policy. ”

Challenges facing businesses that aim to increase impact investing

- The majority of responding organizations in the Questionnaire Survey perceive that the challenge facing businesses that aim to increase impact investing is “fragmentary and unsystematic approaches to impact measurement and management” (45%), followed by “limited availability of professionals capable of helping impact companies make profits and exit” and “limited data on potential impact investee companies and investment products” (32% each).
- The majority of responding impact investing institutions believe that the challenge is “fragmentary and unsystematic approaches to impact measurement and management” (63%), followed by “limited data on potential impact investee companies and investment products” (33%).
- The majority of responding non-impact investing institutions responded that the challenges are “fragmentary and unsystematic approaches to impact measurement and management” and “a limited number of impact companies to invest in” (36% each).
- This means that “a limited number of impact companies to invest in” may be one of the major reasons why these companies have not started impact investing.
- When we sort responses into the groups of “all responding organizations,” “impact investing institutions,” and “non-impact investing institutions,” we see that “fragmentary and unsystematic approaches to impact measurement and management” is noted across all groups as a challenge facing businesses that aim to increase impact investing. This indicates that systematic impact measurement and management will be needed so that institutions that are already making impact investing will invest more, and that more institutions will begin impact investing.

- Following the issue of impact measurement and management as the biggest challenge, the following three responses were selected as second response: “limited availability of professionals capable of helping impact companies make profits and exit,” “limited data on potential impact investee companies and investment products,” and “a limited number of impact companies to invest in.” This means that a limited number of impact companies in Japan is also a major issue in impact investing in Japan.

Figure 33. Challenges facing businesses that aim to increase impact investing ⁴¹

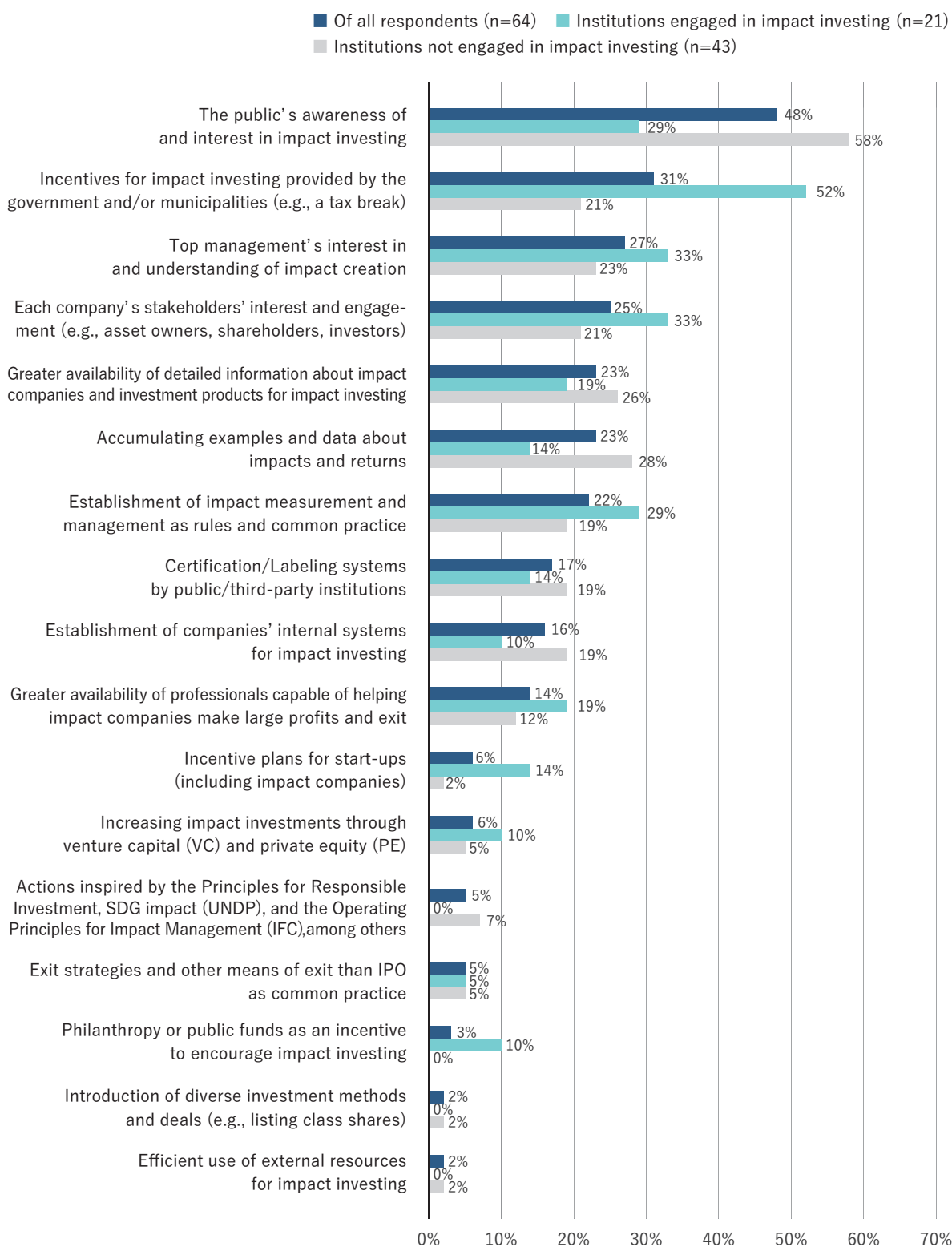


Source: This figure has been created based on *Questionnaire Survey regarding Impact Investment (2020)* (GSG-NAB Japan) – Question: “D6. What do you think is the problem when Japan plans to increase impact investing going forward? (Multiple Answer, hereafter “MA”, up to 3)”

⁴¹ Figure 33 exclude invalid responses that had selected four or more answers, as respondents were asked to select up to three.

Conditions that facilitate impact investing

- The majority of responding organizations responded that “the public’s awareness of and interest in impact investing” (48%) would facilitate impact investing, followed by “incentives for impact investing provided by the government and/or municipalities” (31%).
- The majority of responding impact investing institutions selected the answer “incentives for impact investing provided by the government and/or municipalities” (52%), followed by “top management’s interest in and understanding of impact creation,” and “each company’s stakeholders’ interest and engagement (e.g., asset owners, shareholders, investors)” (33% each).
- Many responding non-impact investing institutions selected the answer “the public’s awareness of and interest in impact investing” (58%), followed by “examples related to impacts and returns coupled with accumulated data” (28%).
- These responses indicate that, to urge companies to enter the impact investing market, impact investing should be more widely known to attract more interest, and that organizations already making impact investing will need incentives provided by the government or other relevant institutions.

Figure 34. Conditions that facilitate impact investing ⁴²

Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “D10. What do you think would facilitate more impact investing? (MA, up to 3)”

⁴² Figure 34 excluded invalid responses that had selected four or more answers, as respondents were asked to select up to three.

Conditions that facilitate impact investing⁴³

The Survey asked the responding institutions to describe⁴³ what they think would facilitate impact investing” in the open-ended question, and the following responses were obtained. In addition to incentives and preferential treatment offered by the government, there should be accumulation of examples and elaborate impact measurement and management, which will require cost and labor be added to conventional processes.

- “ It is necessary that the government urges asset owners and asset managers to include impacts in investment evaluation, and listed companies to disclose information about impacts, and that common guidelines are provided in order to facilitate measurement and disclosure of impacts by asset owners, asset managers, and listed companies. ”
- “ A methodology for impact measurement should be established so that data about measured return on investments will be accumulated to show that a business can make an impact while earning return on investment. ”
- “ The cost and human resources that would be required more than that of conventional investment methods should be reduced. ”
- “ Impact investing does not always yield monetary returns that are worth the risks involved. Non-monetary returns earned through certification or labeling, and preferential treatment that provides investors with monetary rewards for impact creation leading to contribution to society, may serve as investment incentives. ”
- “ The impact investing market needs diverse investors, including mainstream ones. The following are needed to encourage their entry into the market: (1) Successful examples to present, (2) Talent development within investment team to avoid impact investing with no substance (i.e., a balance between economic efficiency and social benefits, know-how for impact measurement, and a network for collecting and spreading information), (3) Support from administration (e.g., a tax break for financial institutions, branding and marketing), (4) Deep understanding by management coupled with the ability to design and promote practical and feasible initiatives on the part of capital providers. ”
- “ We think that impact investing will increasingly replace conventional investments if municipalities, regional banks, local financial institutions (e.g., credit unions), and organizations for public benefit (e.g., educational corporations and healthcare corporations) have restrictions on investments in government bonds and investment trusts, and if the current investment approaches that focus on financial returns are visualized and evaluated. ”

Changes within an organization from the year before in relation to impact investing

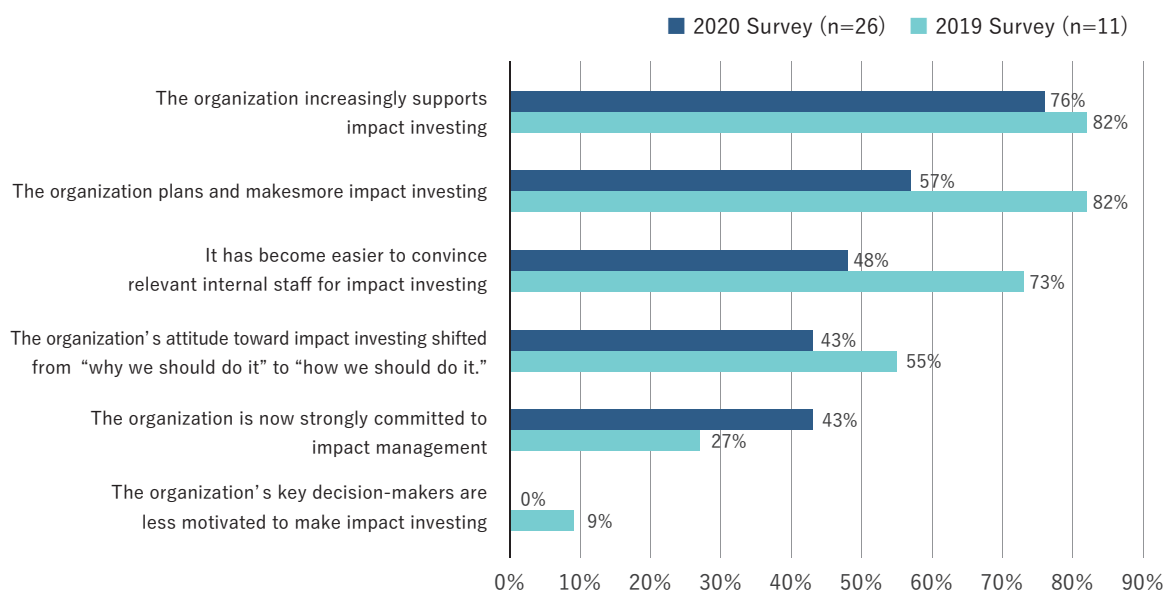
- To the question about changes within an organization from the year before in relation to impact investing, the majority of responding impact investing institutions note that their organizations “increasingly support impact investing” (76%), and many also answered that their organizations “plan and make more impact investing” (57%).

43 Some of the responses to Question D11. “Please describe what you think is needed to facilitate more impact investing” were edited and excerpted without changing their meanings. The underlines were added by the writer. These comments are the respondents’ personal or organizational views and do not represent the view of the GSG National Advisory Board.

- When responses are compared to the 2019 Survey (last year), fewer respondents perceived that their organizations “plan and make more impact investing,” and that “it became easier to convince relevant internal staff of benefits of impact investing”⁴⁴

(Reference)

Figure 35. Changes within an organization from the year before in relation to impact investing⁴⁵



Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2019 and 2020)* (GSG National Advisory Board) – Question: “D2. What changes do you observe within your organization compared to a year ago? Please select all that apply. (MA)”

Japan's Impact Investing Activities

This section provides an overview of how “impact investing institutions” that are engaged in impact investing and meet the aforementioned inclusion criteria are doing in their impact investing based on the responses to the *Questionnaire Survey regarding Impact Investment (2020)*.

Impact AUM and the number of investments made in Japan based on responses to the Questionnaire Survey

- The total of impact AUM and asset manager AUM in Japan was approximately 512.6 billion yen (as shown in Figure 23 (1) in the previous section) as of the last fiscal year-end, based on the respondents of this Survey (FY2020). The total impact AUM calculated from the last year's Questionnaire Survey (FY2019) was 317.9 billion yen.
- The number of impact investing made as of the last fiscal year-end was 183.

⁴⁴ The 2019 Survey had fewer number of samples, and the 2020 Survey had more new respondents. Hence, comparisons between these two surveys are made only as a reference.

⁴⁵ Figure 35 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

Figure 36. Total impact AUM and asset manager AUM and the number of investments made ⁴⁶

Last Fiscal Year-end	AUM (n=22)	Number of Investments Made (n=19)
Median	1.471 billion yen	7
Average	23.3 billion yen	10
Total	512.608 billion yen	183

Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2019 and 2020)* (GSG National Advisory Board) – Question: “A2 (2). Please provide your organization’s impact AUM and the size of asset manager AUM as of the last fiscal year-end. (NA)” and “A3 (2). Please provide the number of impact investing your organizations made as of the last fiscal year-end. (NA)”

Changes in AUM held by impact investing institutions that participated in the 2019 and 2020 surveys

- 13 organizations responded to the 2019 and 2020 surveys. The impact AUM calculated from the 2019 Survey were approx. 307.7 billion yen, and those from the 2020 Survey were approx. 425.2 billion yen.
- The year-on-year growth rate was 138%, and 5 of the 13 organizations had increased their impact AUM.
- These results confirmed that the institutions that have long been making impact investing further increased the investments.

Figure 37. Impact AUM, asset manager AUM and the number of investments made by repeat responding institutions ⁴⁷

Repeat Respondents to the Questionnaire Survey (n=13)	FY2019	FY2020	Growth Rate (YoY)	Count of Growth (Number of institutions that had year-over-year growth)
Impact AUM and Asset Manager AUM	307.683 billion yen	425.243 billion yen	138%	5

Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2019 and 2020)* (GSG National Advisory Board) – Question: “A2 (2). Please provide your organization’s impact AUM and the size of asset manager AUM as of the last fiscal year-end. (NA)”

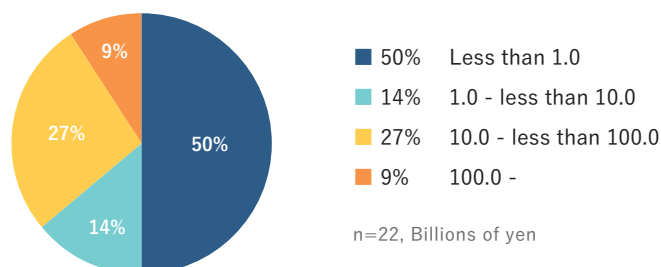
⁴⁶ Figure 36 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. As for investment assets, responses from four organizations whose impact AUM were also counted as other responding organizations’ AUM (double-counting) were excluded. This means that the responses from 22 organizations out of the impact investing institutions (n = 26) were counted. The number of investments made excludes responses from organizations that provided no answer.

⁴⁷ The amounts from the 2019 and 2020 surveys in Figure 37 show the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from responded organizations that provided no answers or whose impact AUM were also counted as other responding organizations’ AUM (double-counting) were excluded.

Proportions of impact AUM and asset manager AUM

- 50% of the impact investing institutions had impact AUM of less than 1.0 billion yen as of the last fiscal year-end, based on the respondents to this Survey.
- A clear minority (9%) of these institutions had impact AUM of at least 100 billion yen.

Figure 38.
Proportions of impact AUM
and asset manager AUM ⁴⁸

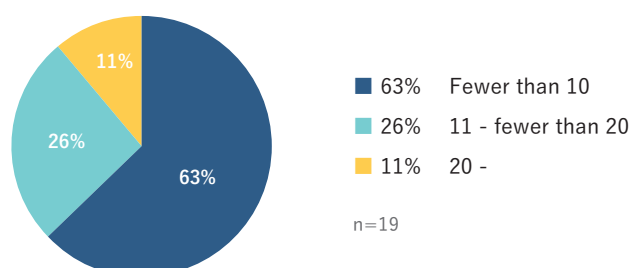


Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “A2 (2). Please provide your organization’s impact AUM and the size of asset manager AUM as of the last fiscal year-end. (NA)”

Proportions of the numbers of impact investing made

- 63% of the impact investing institutions had made less than 10 impact investing as of the last fiscal year-end, based on the respondents to this Survey.
- A clear minority (11%) of these institutions made at least 20 impact investing.

Figure 39.
Proportions of the number of
impact investing made ⁴⁹



Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – “A3 (2). Please provide the number of impact investing your organization made as of the last fiscal year-end. (NA)”

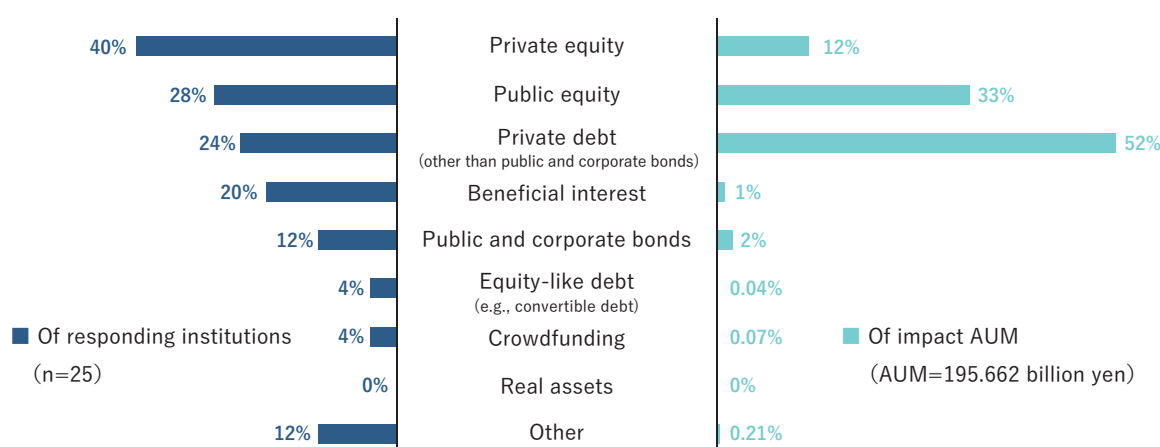
⁴⁸ Figure 38 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from organizations that provided no answers or whose impact AUM were also counted as other responding organizations’ AUM (double-counting) were excluded.

⁴⁹ Figure 39 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. Responses from organizations that provided no answers or whose impact AUM were also counted as other responding organizations’ AUM (double-counting) were excluded.

Asset classes of impact investing

- To the question about the asset classes of impact investing, many responding institutions answered that they allocate their impact investing to “private equity” (40%), followed by “public equity” (28%).
- On the other hand, the majority of impact Asset under Management (AUM) are “private debt” (52%), followed by “public equity” (33%).
- These results confirmed that impact investing is widely allocated to the asset class of equity (especially private equity), while most of the impact AUM are allocated to the classes of private debt or public equity.

Figure 40. Asset classes of impact investing ⁵⁰



Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board)
 – Question: “A5 (5) Investment methods (MA)”

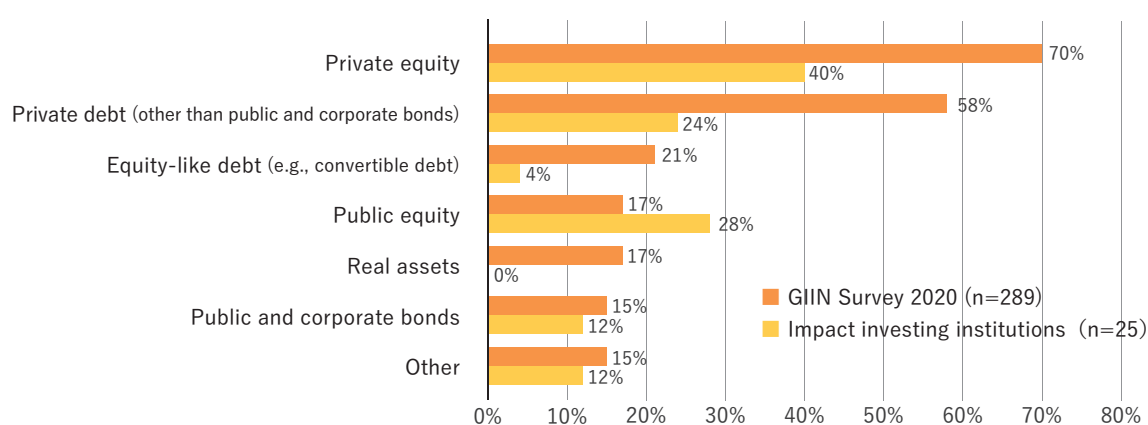
Impact investments by asset class: International comparison

- The results of the GIIN Survey 2020 (Figure 30) used for international comparison show that the majority of responding institutions allocate their impact investments to “private equity” (70%), followed by “private debt” (58%).
- These results confirmed that private equity is internationally more common as an asset class of impact investing than in Japan.

⁵⁰ Figure 40 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

⁵¹ Figure 41 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded. The chart shows only comparable items from the GIIN Survey.

Figure 41. Impact investing by asset class: International comparison ⁵¹

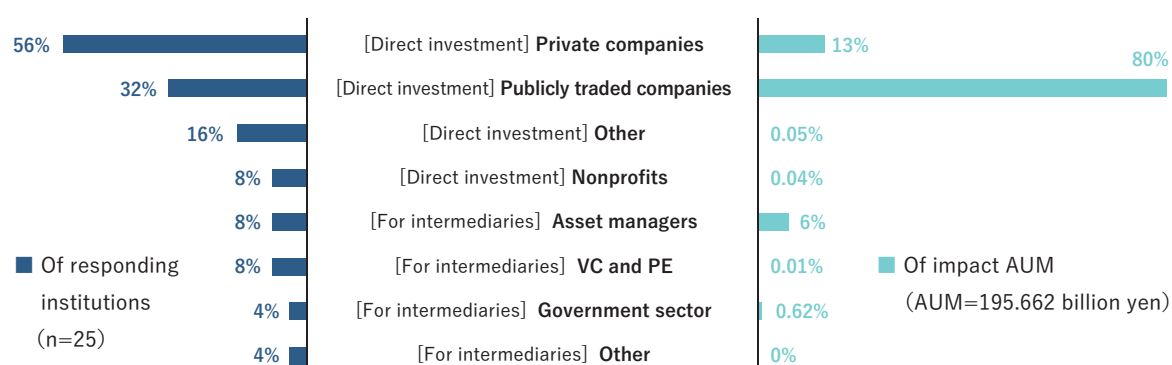


Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the *GIIN Annual Impact Investor Survey 2020*. – Question: “A5 (5) Investment methods (MA)”

Impact investees by organization type

- As for the impact investees by organization type, a clear majority of responding institutions answered that they invest in “(direct investments) private companies” (56%), followed by “(direct investments) publicly traded companies” (32%).
- On the other hand, the majority of impact AUM are allocated to “(direct investments) publicly traded companies” (80%), followed by “(direct investments) private companies” (13%).
- These results confirmed that impact investing is widely made in private companies in line with asset allocation, while most of the impact AUM are allocated to publicly traded companies to which massive loans are given and whose stocks are listed.

Figure 42. Impact investees by organization type ⁵²



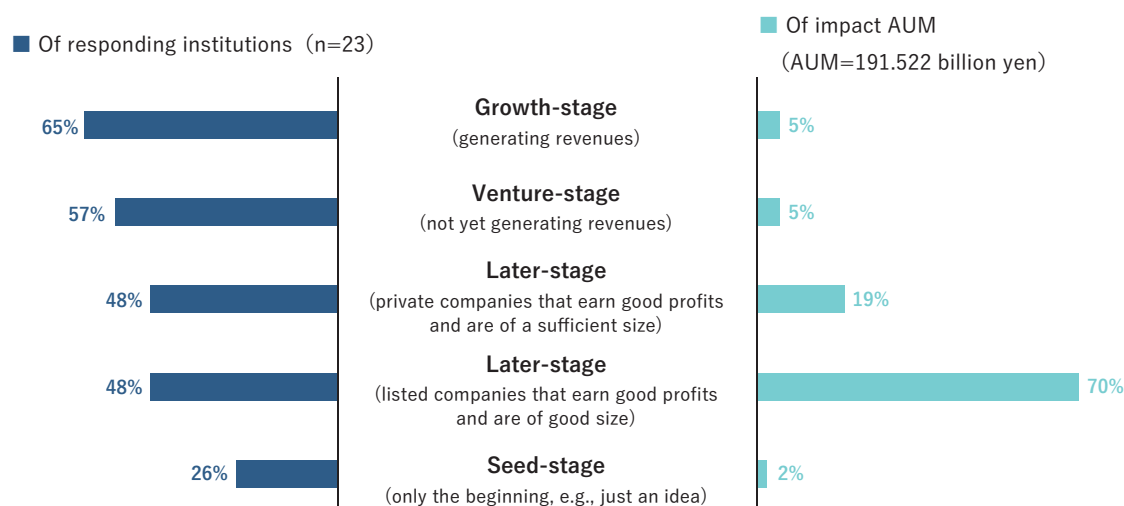
Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “A5 (3) Types of investee organizations (MA)”

⁵² Figure 42 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Impact investees by stage of business

- As for the growth stages of the impact investees, a clear majority of responding institutions answered that the impact investees are at the “growth-stage (generating revenues)” (65%), followed by the “venture-stage (not yet generating revenues)” (57%).
- On the other hand, a clear majority of impact AUM are allocated to companies at the “later-stage (publicly traded companies that earn good profits and have good size)” (70%), followed by the “later-stage (private companies that earn good profits and are of a sufficient size)” (19%).
- These results confirmed that certain percentages of impact investing are evenly made in companies at different stages of business, while most of the impact AUM are allocated to publicly traded companies at a later stage.

Figure 43. Impact investees by stage of business ⁵³



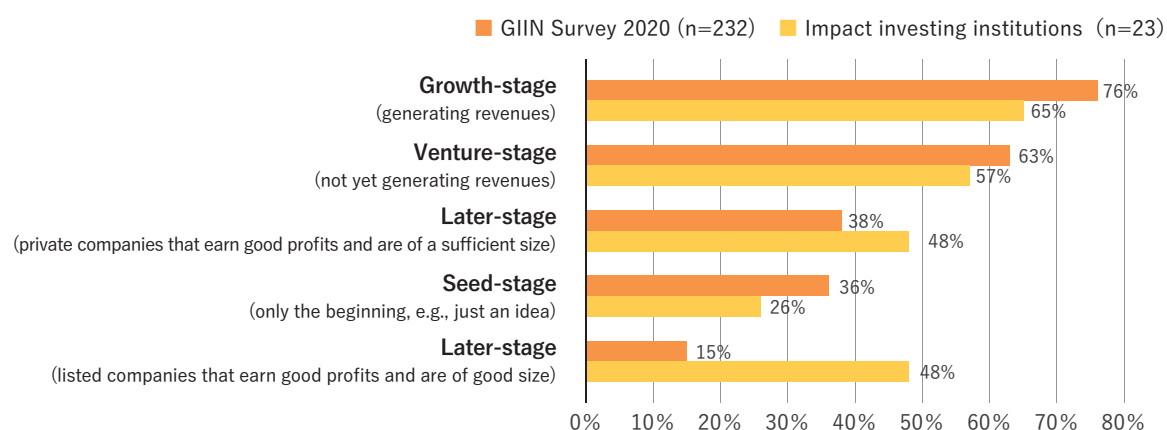
Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “A5 (4) Stages (MA)”

Impact investees by stage of business: International comparison

- The results of the GIIN Survey 2020 (Figure 33) used for international comparison show that the majority of responding institutions invest in companies at the “growth-stage (generating revenues)” (76%), followed by the “venture-stage (not yet generating revenues)” (63%).
- These results confirmed that impact investing institutions around the world more commonly invest in private companies across at the growth, venture, and seed stages than their counterparts in Japan.

⁵³ Figure 43 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

⁵⁴ Figure 44 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded. The chart shows only comparable items from the GIIN Survey.

Figure 44. Impact investees by stage of business: International comparison ⁵⁴

Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the GIIN Annual Impact Investor Survey 2020. - Question: "A5 (4) Stages (MA)"

Impact investees by region

- As for investees by region, the majority of responding institutions answered "Japan" (83%). The majority of impact AUM are also allocated to companies in Japan (52%).
- Secondly, as high as 29% of responding institutions noted "Asia" (excluding Japan) and 25% "North America."
- Following Japan, as high as 32% of impact AUM are allocated to companies in Europe.
- The results of the GIIN Survey 2020 (Figure 26) show that the majority of responding institutions invest in companies in the United States and Canada (47%), followed by Sub-Saharan Africa (43%). The majority of impact AUM are allocated to companies in the United States and Canada (30%), followed by Europe (excluding Eastern Europe) (15%).
- These results confirmed that, while many respondents noted Japan as the region where their impact investing go partly because this Survey is intended for companies in Japan, almost half of impact AUM are allocated to overseas businesses.

Figure 45. Impact investees by region ⁵⁵

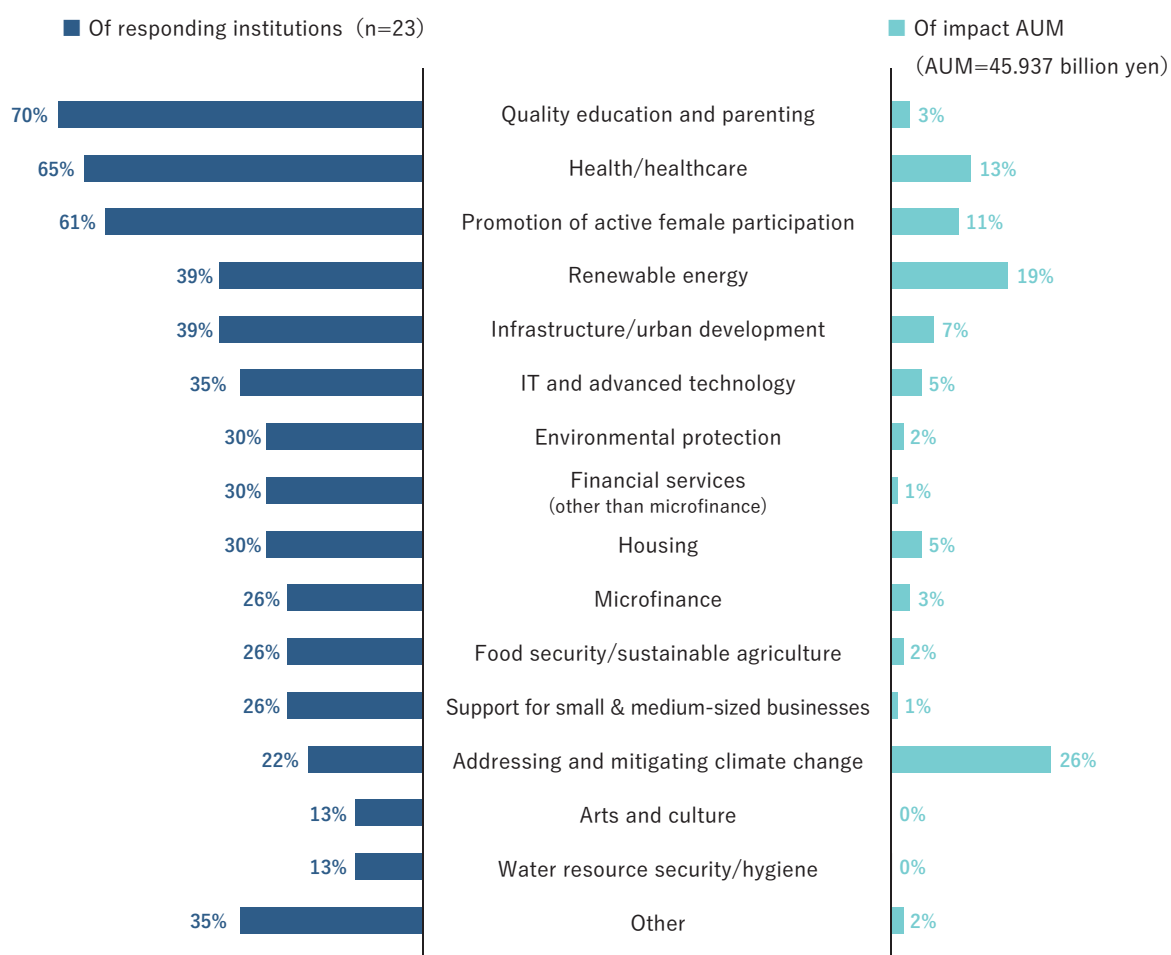
Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: "A8. Please provide a breakdown of impact AUM by region, with all assets being 100." (NA)"

⁵⁵ Figure 45 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Impact investees by sector

- As for the impact investees' sectors, a clear majority of responding institutions answered that they invest in "quality education" (70%), followed by "health/healthcare" (65%).
- The majority of impact AUM are allocated to "addressing and mitigating climate change" (26%), followed by "renewable energy" (19%).
- As for the impact investees' themes, respondents noted the themes to address serious social issues in Japan, including the declining birthrate, aging population and gender inequality. In terms of impact AUM basis, however, the Survey confirmed that most of their impact AUM focused on global issues such as climate change and renewable energy to address the crisis.

Figure 46. Impact investees by sector ⁵⁶



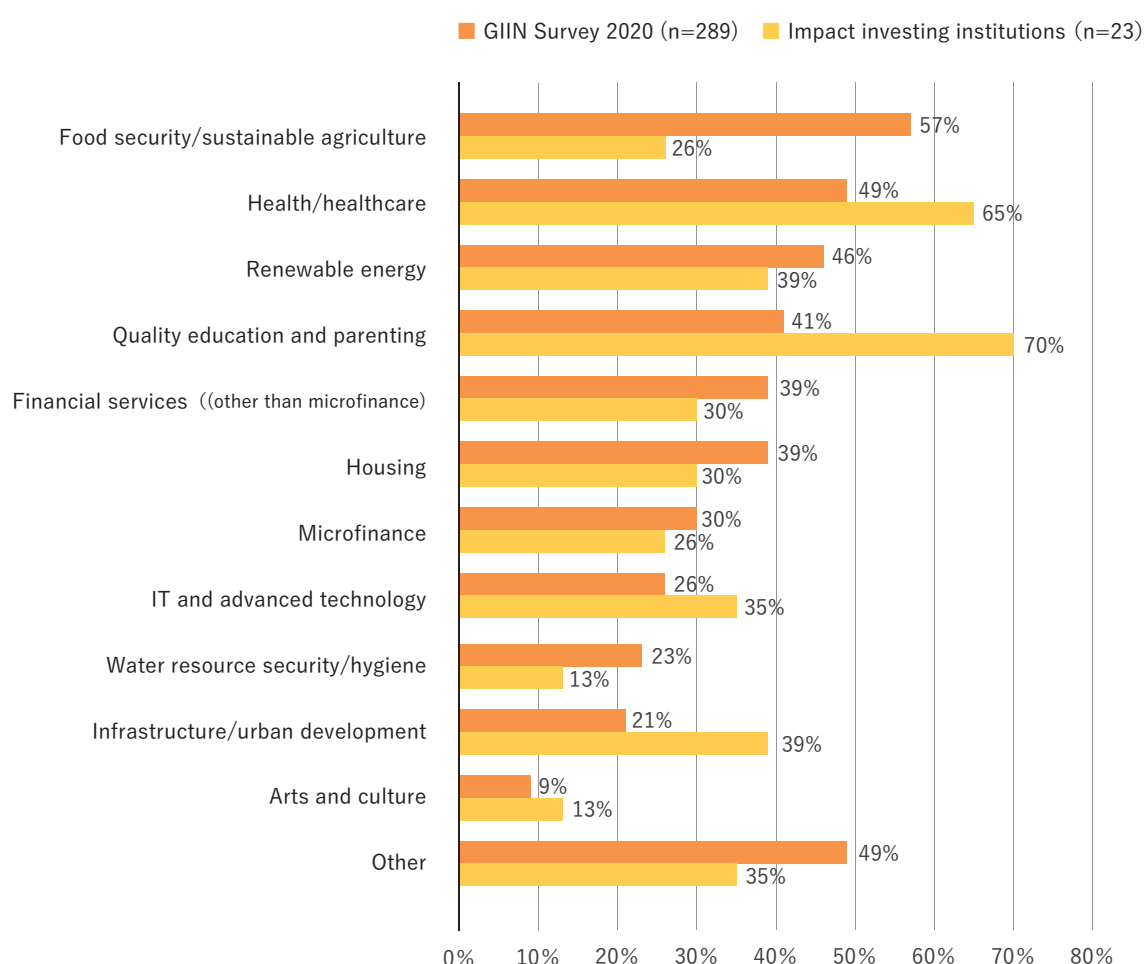
Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: "A7. Please provide whether you make impact investing by sector, and a breakdown of impact AUM by sector, with all assets being 100." (SA, NA)"

⁵⁶ Figure 46 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded.

Impact investees by sector: International comparison

- The results of the GIIN Survey 2020 (Figure 28) used for international comparison show that a clear majority of responding institutions invest in “food security/sustainable agriculture” (57%), followed by “health/healthcare” (49%).
- There was a considerable difference between these international respondents and respondents in Japan in percentage points for “food security/sustainable agriculture” (31 points, international > Japan), and “quality education and parenting” (29 points, Japan > international).

Figure 47. Impact investees by sector: International comparison ⁵⁷



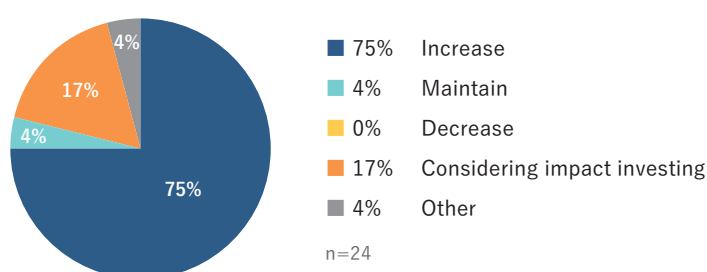
Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the *GIIN Annual Impact Investor Survey 2020*. – Question: “A7. Please provide whether you make impact investing by sector, and a breakdown of impact AUM by sector, with all assets being 100.” (SA, NA)”

⁵⁷ Figure 47 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. As for responses based on impact AUM, outliers and responses from organizations whose impact AUM were also counted as other responding organizations' AUM (double-counting) were excluded. The chart shows only comparable items from the GIIN Survey.

Impact investing institutions' plans for future impact investment

- A clear majority of impact investing institutions answered that they plan to “increase” (75%) impact investing. None of the institutions plan to “decrease.”
- 15% of non-impact investing institutions plan to “increase (/start)” impact investing, and 57% are “considering” impact investing (=46).
- Three-fourths of the impact investing institutions plan to increase impact investing, which indicates that the market will likely grow.

Figure 48. Impact investing institutions' plans for future impact investment ⁵⁸



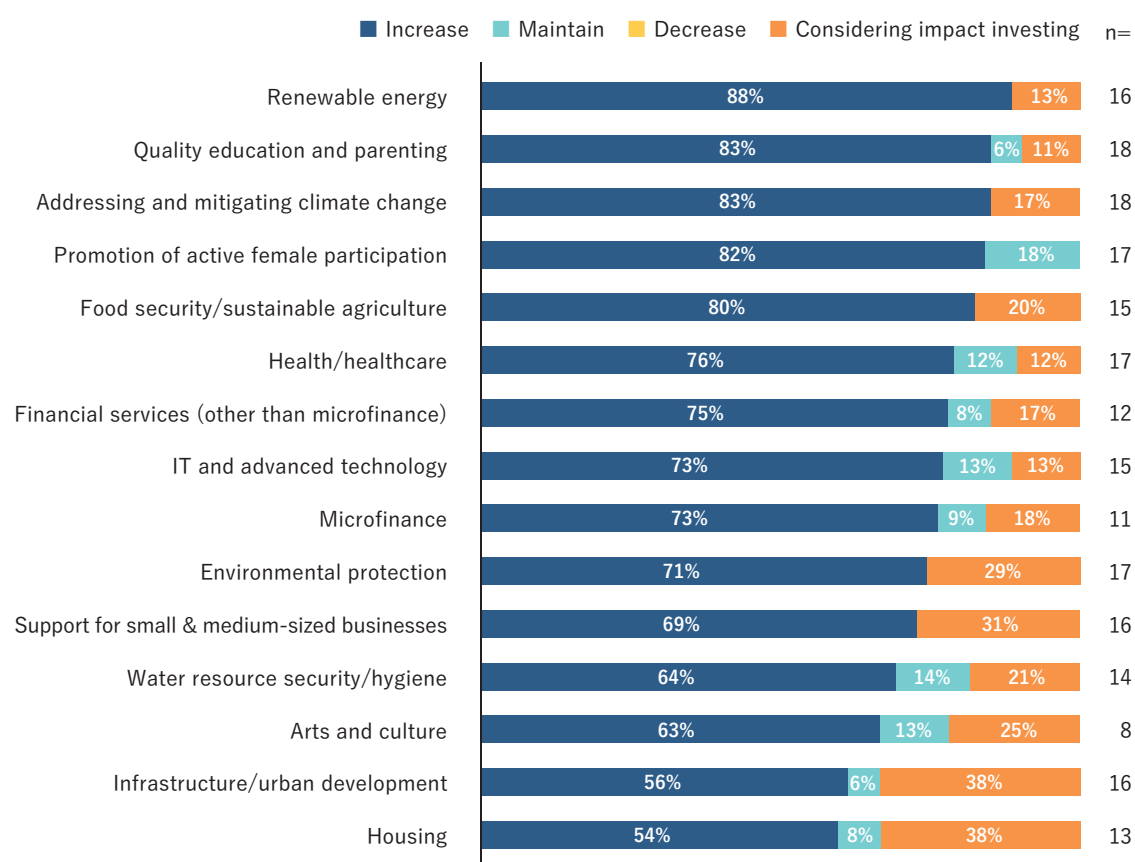
Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board)
 – Question: “D8. Please select one of the following that is closest to your plan for future impact investment. (SA)”

Impact investing institutions' plans for future impact investment (by sector)

- The majority of these impact investing institutions plan to “increase” impact investing in “renewable energy” (88%), followed by “quality education and parenting” and “addressing and mitigating climate change” (83% each).
- In the GIIN Survey 2020 (Figure 29), the majority of respondents plan to “increase” impact investing in “food and agriculture” (54%), followed by “renewable energy” (53%).
- These results confirmed that these institutions' plans show the similar trends to those in “impact invest-ees by sector (Figure 46)” at present.

⁵⁸ Figure 48 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

Figure 49. Impact investing institutions' plans for future impact investment (by sector) ⁵⁹



Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board)
 – Question: “D9. Please circle your answer for each sector based on your plan for future impact investments. (SA)”

Ideas and efforts applied to the planning, implementation, and measurement of impact investing ⁶⁰

The Survey asked impact investing institutions to describe “ideas and efforts applied to the planning, implementation, and measurement of impact investing.” Some of the responses to this open-ended question are provided below. These answers show how the respondents use creativity to incorporate impact measurement and management, which differentiate impact investing from conventional investment methods, into the process.

⁵⁹ Figure 49 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Some items do not sum to 100% due to the processing of decimal points.

⁶⁰ Some of the responses to Question D3. “Please describe ideas or efforts that your organization applies to the process of impact investing from planning and implementation to post-investment measurement, if any” were edited and excerpted without changing their meanings. The underlines were added by the writer. These comments are the respondents’ personal or organizational views and do not represent the view of the GSG National Advisory Board.

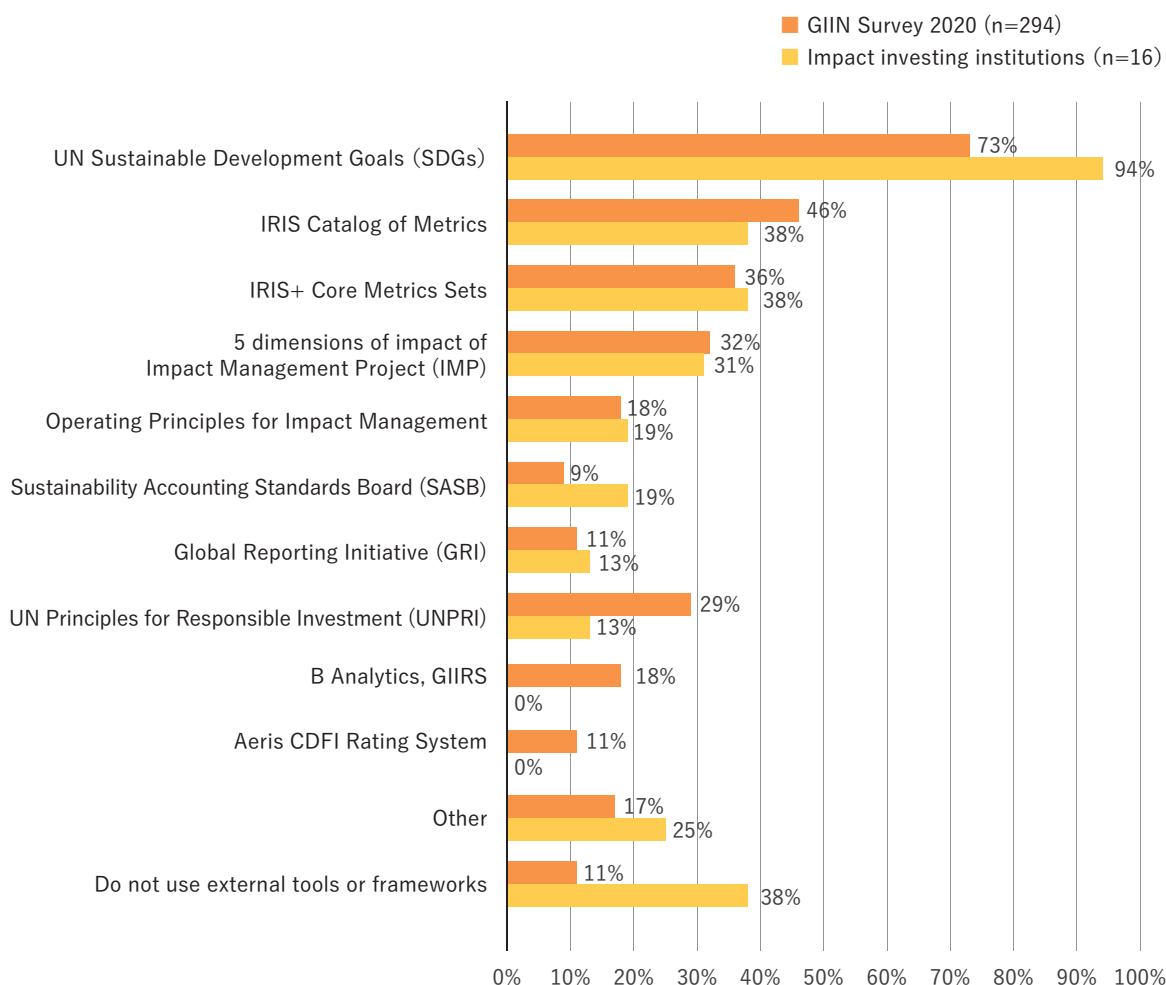
- “ Incorporating impact measurement into communication with potential investee companies deepens our understanding of their businesses, and so we use the measurement to examine profitability and social benefits more thoroughly. We now apply the angles of IMP’s five dimensions and IRIS+ more consciously to the impact measurement models we create for due diligence on potential investee companies. ”
- “ We studied precedents in other countries and contacted impact investing communities around the world to analyze issues and opportunities involved in impact investing. ”
- “ We keep in mind that we should discuss not only the societal values our company is aware of, but whether we are missing any societal values. ”
- “ We take time to agree about what sets impact investing apart from the exit strategies that current investments and venture capital aim for, what impact investing intends to achieve, and what benefits it offers for investee companies. ”
- “ We participate in on-the-ground research and attend board meetings to keep ourselves updated on the status of our investments and discuss it in order to ensure that the initially planned impact will be achieved. ”
- “ We provide opportunities for investors and asset managers, or investors and investee companies, to develop mutual trust (e.g., meetings of beneficiaries (our own briefing sessions on investments), visits to investee companies, and speaking engagements by investee companies’ management). ”
- “ We have asked investee companies to disclose the impacts and related KPIs. ”

Status of Impact Measurement and Management in Japan

This section provides an overview of impact measurement and management, which differentiates between impact investing and conventional investment, primarily by “impact investing institutions” that are engaged in impact investing and meet the aforementioned inclusion criteria, based on responses to the *Questionnaire Survey regarding Impact Investment (2020)*.

Tools and frameworks utilized in impact measurement

- The most respondents answered “Sustainable Development Goals (SDGs)” (94%) as tools and frameworks utilized in impact measurement, followed by “IRIS Catalog of Metrics” and “IRIS+ Core Metrics Sets” (38% each).
- In the GIIN Survey 2020 (Figure 36) also, the most respondents answered “Sustainable Development Goals (SDGs)” (73%).
- This confirmed that SDGs are being utilized widely in Japan as well as globally. The IRIS and IMP tool sets, which are becoming a standard among impact investing institutions are used less frequently than SDGs, but were utilized at about the same level in Japan as globally.

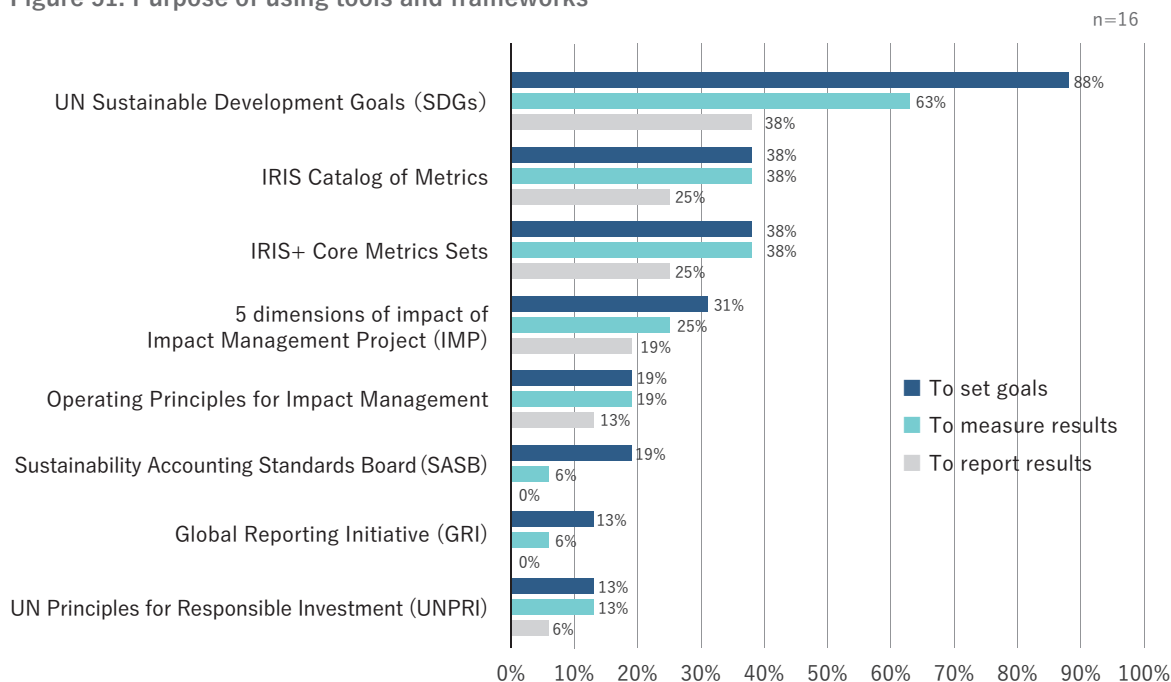
Figure 50. Tools and frameworks used in impact measurement ⁶¹

Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the *GIIN Annual Impact Investor Survey 2020*. – Question: “C1. Do you use the following tools and frameworks for measuring impact of your impact investing activities? Please select all that apply. (MA)”

Purpose of using tools and frameworks

- The largest number of respondents answered “setting goals” (88%) as the purpose of using “Sustainable Development Goals (SDGs),” which is most frequently used for measurement of impact, followed by “measuring results” (63%) and “reporting results” (38%).
- The tool sets of IRIS (IRIS Catalog of Metrics and Core Metrics Sets) were used for setting goals and measuring results.

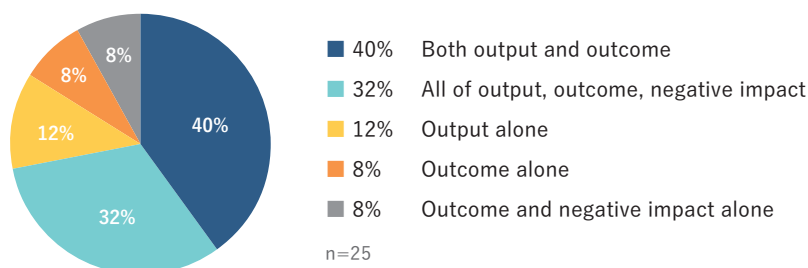
⁶¹ Figure 50 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

Figure 51. Purpose of using tools and frameworks⁶²

Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “C1. Do you use the following tools and frameworks for measuring impact of your impact investing activities? Please select all that apply. (MA)”

Types of impact metrics

- “Both output and outcome” (40%) was cited the most as a pattern among the impact metrics types, followed by “all of output, outcome, and negative impact” (32%).
- At the same time, there was a small number of respondents selecting “output alone” (12%).

Figure 52. Types of measurement metrics adopted for implementation of impact investing⁶³

Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “A5(7). Type of measurement metrics (MA)”

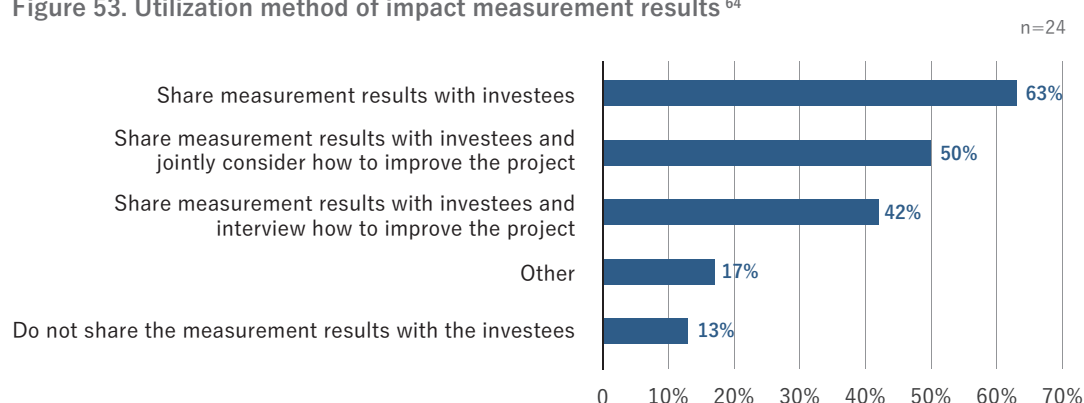
⁶² Figure 51 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

⁶³ Figure 52 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

Utilization method of impact measurement results

- Some 63% of impact investing institutions replied that they “share the measurement results with impact investees” as a method of utilizing impact measurement results.
- Upon sharing the result, some 50% of the respondents said they “jointly consider how to improve the business,” while 42% were limited to “interviewing how to improve the business.”
- At the same time, although few, some responded that they “do not share the measurement results with the impact investees” (13%).

Figure 53. Utilization method of impact measurement results ⁶⁴

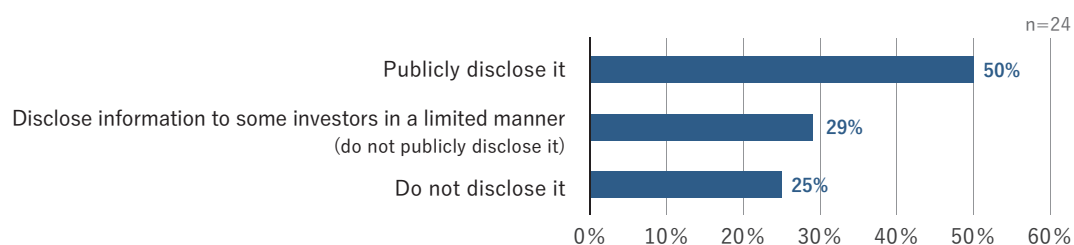


Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board)
– Question: “C3. Please select all that apply as the methods of utilizing the impact measurement results. (MA)”

Information disclosure regarding impact investing

- Some 50% of the impact investing institutions said they “publicly disclose” the information regarding impact investing. Some 29% said they “disclose information to some investors in a limited manner (do not publicly disclose it)” and 25% said they “do not disclose.”

Figure 54. Information disclosure regarding impact investing ⁶⁵



Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board)
– Question: “C4. Do you make any sort of disclosure regarding impact investing? Please select all that apply. (MA)”

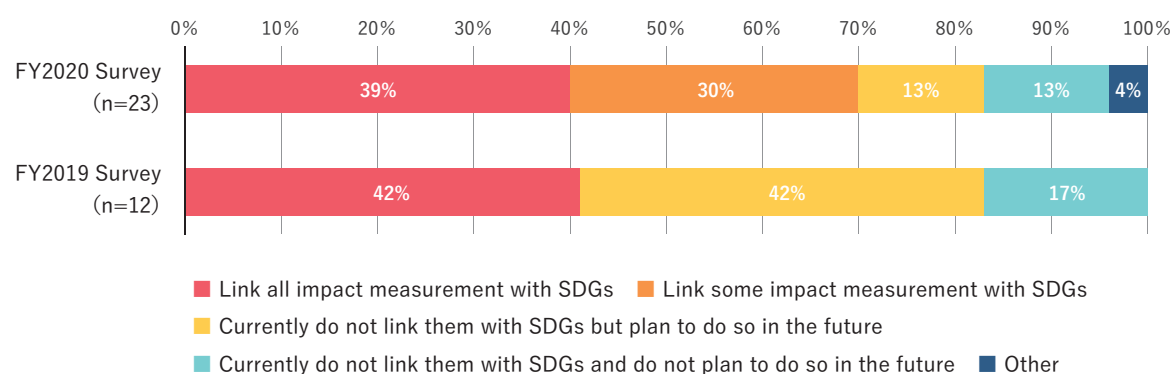
⁶⁴ Figure 53 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

⁶⁵ Figure 54 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded.

SDGs-linked impact measurement

- Regarding the implementation status of SDGs-linked impact measurement, 39% of the impact investing institutions said they “link all impact measurement with SDGs.” Some 30% said they “link some of impact measurement with SDGs” and 13% replied that they “currently do not link them with SDGs but plan to do so in the future.”
- In comparison with the survey in FY2019 (the previous fiscal year), the ratio of those who answered that they “link some impact measurement with SDGs” increased (0% in FY2019 -> 30% in FY2020 ⁶⁶).

Figure 55. Impact measurement linked to SDGs ⁶⁷



Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “C5. Are you carrying out impact measurement linked to Sustainable Development Goals (SDGs)? Please select all that apply. (MA)”

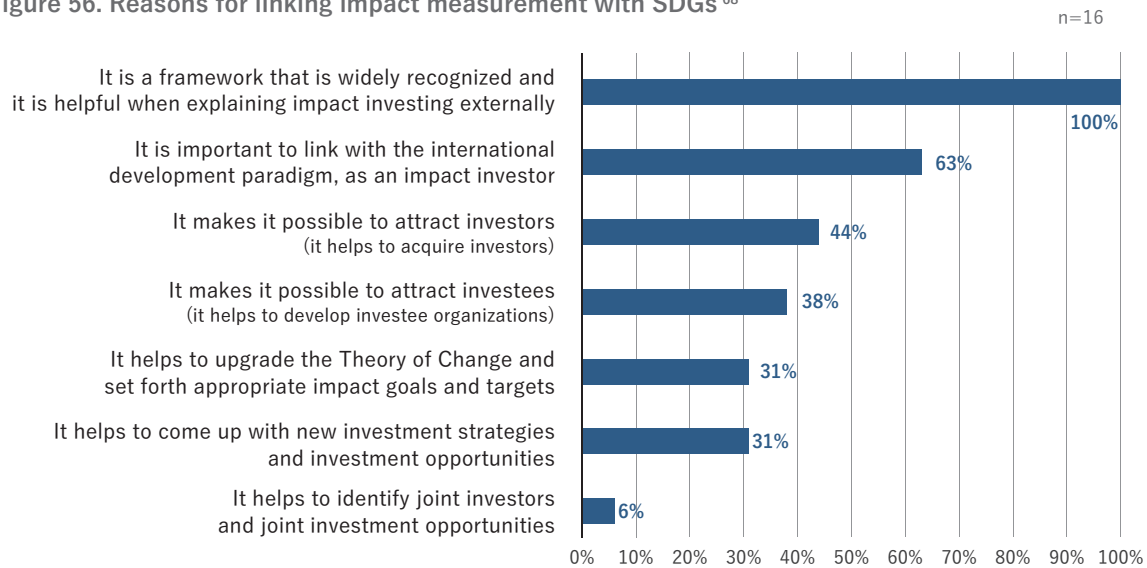
Reasons for linking impact measurement with SDGs

- As a reason for linking impact measurement and SDGs, the largest number of the respondents said “it is a framework that is widely recognized and it is helpful when explaining impact investing externally” (100%), followed by “it is important to link with international development paradigm for an impact investor” (63%).
- As SDGs are widely utilized globally (Figure 50), the trend of institutions considering the link with SDGs as effective also for linking and collaborating with global impact investing initiatives was confirmed from the responses to the top two questions.

⁶⁶ The 2019 Survey had fewer number of samples, and the 2020 Survey had more new respondents. Hence, comparisons between these two surveys are made only as a reference.

⁶⁷ Figure 55 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. Some items do not sum to 100% due to the processing of decimal points.

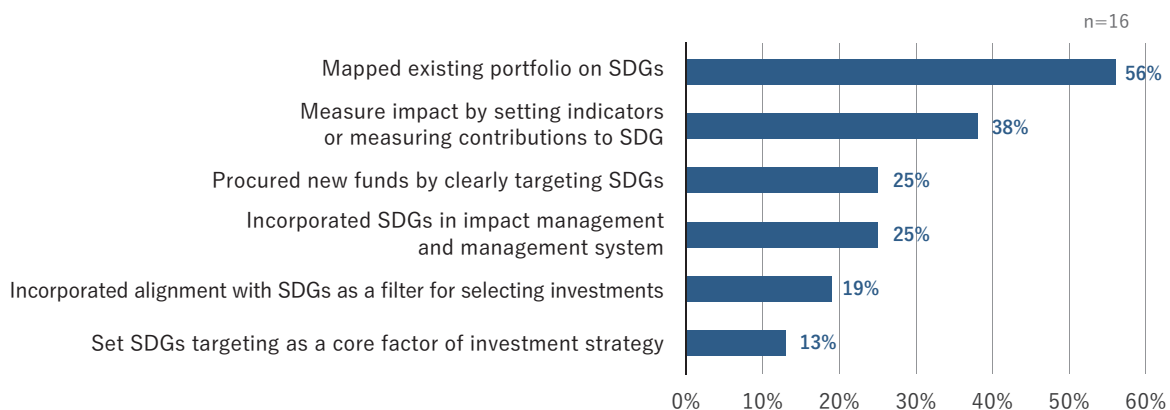
⁶⁸ Figure 56 targets the impact investing institutions that said they “link all or some social impact measurement with SDGs” in Question C5. “Theory of Change” in the figure denotes the theory that systematically sorts out the causal relationship by grasping steps towards final outcome and missions that the institutions aim to achieve.

Figure 56. Reasons for linking impact measurement with SDGs⁶⁸

Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “C5SQ1. Please select all that apply as a reason for which you link SDGs with social impact measurement. (MA)”

Method of linking impact measurement with SDGs

- As a method of linking impact measurement and SDGs, the largest number of institutions answered that they “mapped existing portfolio on SDGs” (56%), followed by they “measure impact by setting metrics for measuring contributions to SDGs” (38%).
- It was confirmed that SDGs are frequently utilized for ensuring consistency with the existing initiatives.

Figure 57. Method of linking impact measurement with SDGs⁶⁹

Source: Created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) – Question: “C5SQ2. How did you link impact investing with SDGs? Please select all that apply. (MA)”

69 Figure 57 targets the impact investing institutions that said they “link all or some social impact measurement with SDGs” in Question C5. “Social impact management” in the figure is management that aims to achieve a greater impact by incorporating social impact measurement into the process of business operation in order to make improvements in a business and to make decisions based on acquired information.

Impact measuring method and process ⁷⁰

The Survey asked the impact investing institutions to comment on “impact measuring method and process” in the open-ended question. Some of the responses are provided below. The impact investing institutions appeared to be going through trial and error in incorporating the impact measurement and monitoring.

- “ In the phase prior to investment implementation, we set forth impact goals and monitoring indicators through meetings with investee companies. Subsequently, we deliberate on adequacy of the impact goals and monitoring indicators at in-house meetings. Once investment is implemented, we confirm the progress of achievement of the established monitoring indicators on a regular basis. ”
- “ We contemplate implementation of impact measurement and management of funds and investees. In particular, we work together with the management of investees on preparation of impact measurement models and selection of measurement indicators from the stage of due diligence (DD). While we utilize IMP’s 5 dimensions, IRIS+, SDGs, etc., we follow up on recent trends on B analytics, impact management principle, SASB, impact-weighted accounts, etc. ”
- “ We comprehensively extract positive and negative impacts resulting from a company’s business, products, service, and activities, categorize them using UNEP FI’s Impact Radar, and identify the impacts that are especially important for realizing sustainability of the company, society, and environment. If it is difficult to measure an impact directly, we utilize logic models and appropriate frameworks and set forth an impact or alternative indicator for the impact. ”
- “ We set forth KPI based on logic models, etc. that are set before making investment. Based on this, we confirm the impact status along with financial status at the monthly board meeting. ”
- “ We measure the impact by taking objectivity into consideration such as third-party evaluation and standards regarding the content, etc. disclosed by the investment targets. ”
- “ We use our own ESG Score Card and SDGs Indicator to support growth of our investees and measure SDGs impacts. Our investment staff carry out prior review and evaluation, and then the final evaluation is made at the investment committee where investment decisions are made. ”
- “ We measure impacts from the disclosed contents of impact reports by the issuers and asset managers (financial institutions). ”

⁷⁰ We edited and excerpted part of answers of Question C2. “Please describe the impact measuring method and process as much as possible.” without changing the meaning. The underlines were added by the writer. These comments are the respondents’ personal or organizational views and do not represent the view of the GSG National Advisory Board.

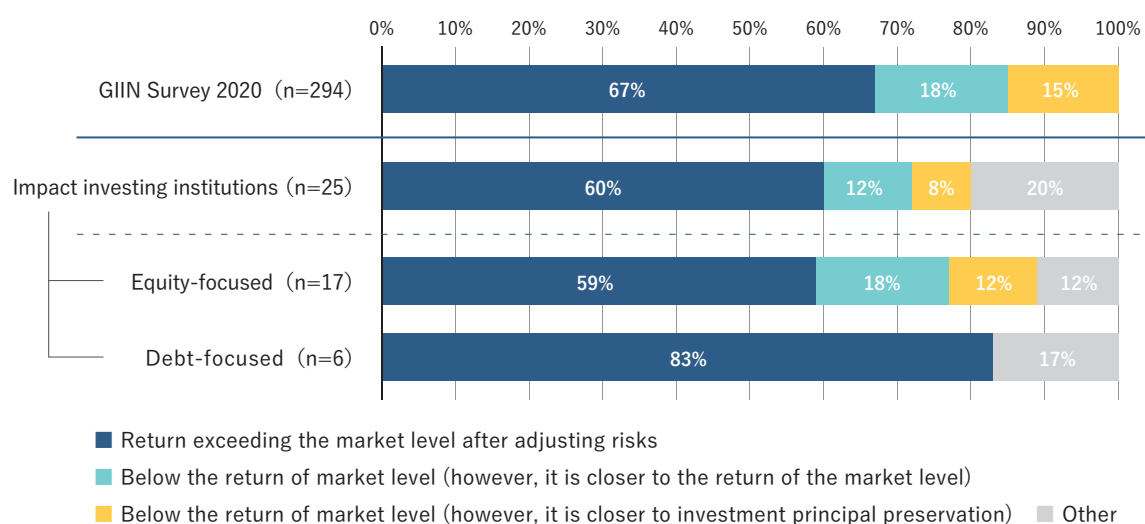
Return and Impact of Impact Investing

This section confirms expected level of returns by institutions that are engaged in impact investing and meet the aforementioned inclusion criteria as well as the rate of achievement of the actual return impact based on responses to the *Questionnaire Survey regarding Impact Investment (2020)*.

Expected levels of financial returns in impact investing

- Concerning expected levels of financial returns, the largest number of the impact investing institutions said “return exceeding the market level after adjusting risks” (60%), while there were certain number of institutions that said “below the return of market level (however, it is closer to the market level)” (12%) and “below the market level (however, it is closer to investment principal preservation)” (8%).
- More equity-focused investment institutions said they would allow “below the return of market level” compared with the overall institutions.
- Meanwhile, many of debt-focused investment institutions answered “return exceeding the market level after adjusting risks” (83%)⁷¹.
- In the GIIN Survey 2020 (Figure 5), the ratio of respondents answering “return exceeding the market level after adjusting risks” was at 67%, which is about the same level as in Japan, but the ratio of those answered “below the market level (however, it is closer to investment principal preservation)” (15%) tended to be more than in Japan.

Figure 58. Expected level of financial returns ⁷²



Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the *GIIN Annual Impact Investor Survey 2020*. – Question: “A9. What level is your goal for financial returns of impact investing? Please select one answer that most accurately describes your view. (SA)”

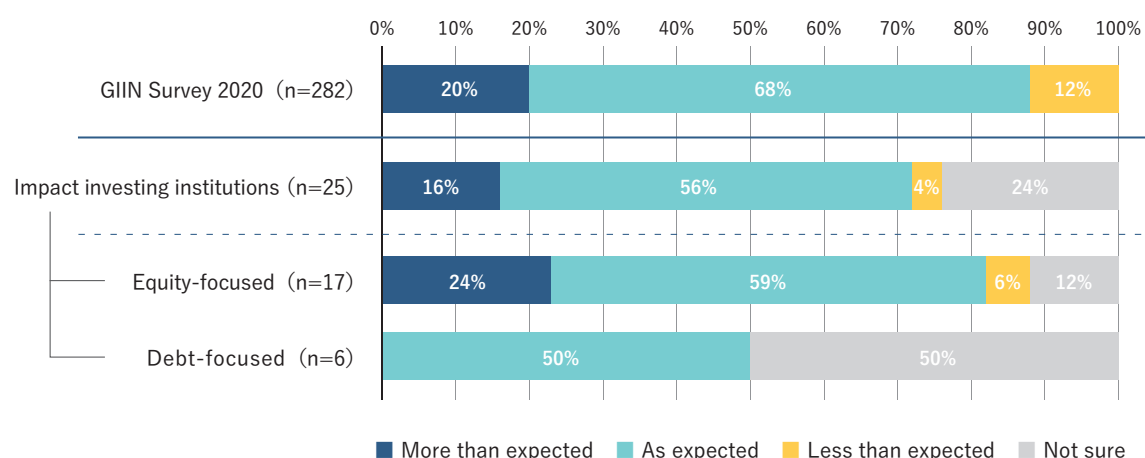
⁷¹ The sample count of debt-focused investment institutions is small, so they are treated as a reference.

⁷² Figure 58 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. In the sub-analysis of equity-focused and debt-focused investment institutions, the sum of count n does not match the total number because two institutions falling under outliers are excluded. Some items do not sum to 100% due to the processing of decimal points.

Rate of achievement of financial returns in impact investing

- Regarding the rate of achievement of financial returns, the largest number of impact investing institutions said it was “in line with expectations” (56%), but there were certain numbers of institutions answering “not sure” (24%), “more than expected” (16%), and “below expectations” (4%).
- More equity-focused investment institutions said the returns were “more than expected” (24%) compared with the overall institutions.
- Meanwhile, many debt-focused investment institutions said the returns were “in line with expectations” (50%)⁷³.
- In the GIIN Survey 2020 (Figure 47), those who answered “in line with expectations” was also the highest (68%), but those who answered “more than expected” (20%) accounted for more than in Japan. Compared with the global survey, impact investing initiatives in Japan have just begun and the survey result showed that there has been not enough track record of financial returns being accumulated⁷⁴.

Figure 59. Rate of achievement of financial returns⁷⁵



Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the *GIIN Annual Impact Investor Survey 2020*. – Question: “A10. How much financial returns and impact in impact investing have been achieved compared with the expectations? Please select one answer that most accurately describes your view. (SA)”

73 The sample count of debt-focused investment institutions is small, so they are treated as a reference.

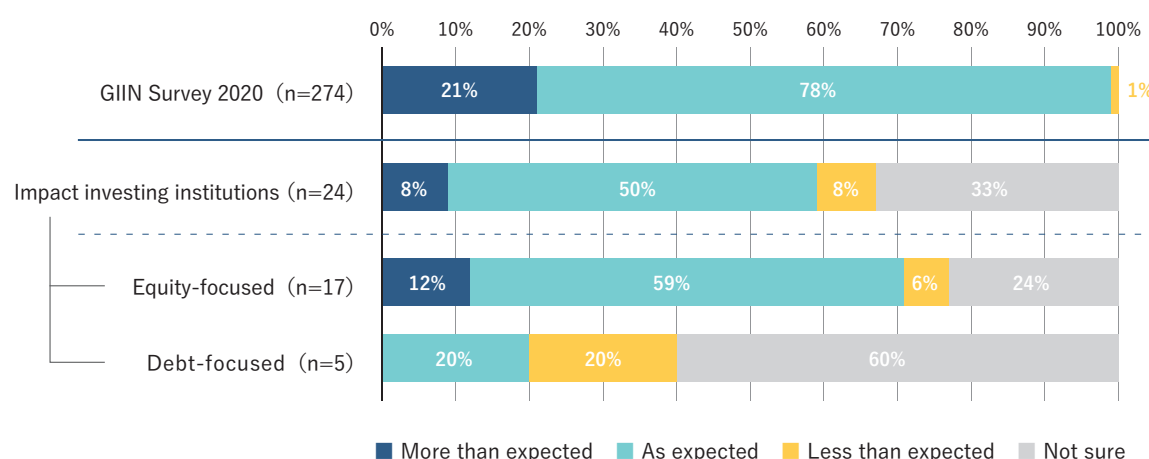
74 It is necessary to pay attention to the fact that the GIIN Survey 2020 excludes “not sure” in aggregation of this question. In this report, we also considered excluding “not sure” from the aggregation, but we decided to adopt the treatment shown in Figure 59 taking into consideration that a certain number of respondents answering “not sure” gives some suggestions in the current stage in Japan, where impact investing is expected to develop from now on.

75 Figure 59 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. In the sub-analysis of equity-focused and debt-focused investment institutions, the sum of the count n does not match the total because two institutions falling under outliers are excluded. Some items do not sum to 100% due to the processing of decimal points.

Rate of achievement of impact in impact investing

- Regarding the rate of achievement of impact, the largest number of impact investing institutions as a whole answered that it was “in line with expectations” (50%), but there were certain numbers of institutions answering “not sure” (33%), “more than expected” (8%), and “below expectations” (8%).
- More equity-focused investment institutions said the returns were “more than expected” (12%) compared with the overall institutions.
- Meanwhile, many debt-focused investment institutions replied “not sure” (60%)⁷⁶.
- In the GIIN Survey 2020 (Figure 47), those who answered “in line with expectations” was also the highest (78%), but those who replied “more than expected” (21%) accounted for more than in Japan.
- Compared with the global survey, impact investing initiatives in Japan have just begun and the survey results showed that there has been not enough track record of impact generation being accumulated⁷⁷.

Figure 60. Rate of achievement of impact⁷⁸



Source: These figures have been created based on the *Questionnaire Survey regarding Impact Investment (2020)* (GSG National Advisory Board) and the *GIIN Annual Impact Investor Survey 2020*. – Question: “A10. How much financial returns and impact in impact investing have been achieved compared with the expectations? Please select one answer that most accurately describes your view. (SA)”

⁷⁶ The sample count of debt-focused investment institutions is small, so they are treated as a reference.

⁷⁷ It is necessary to pay attention to the fact that the GIIN Survey 2020 excludes “not sure” in aggregation of this question. In this report, we also considered excluding “not sure” from the aggregation, but we decided to adopt the treatment shown in Figure 60, taking into consideration that a certain number of respondents answering “not sure” gives some suggestions in the current stage in Japan, where impact investing is expected to develop from now on.

⁷⁸ Figure 60 shows the results of responses only from the organizations that are engaged in impact investing and meet the aforementioned inclusion criteria. The organizations that provided no answer were excluded. In the sub-analysis of equity-focused and debt-focused investment institutions, the sum of the count n does not match the total because two institutions falling under outliers are excluded. Some items do not sum to 100% due to the processing of decimal points.

Summary: Vision of Impact Investing in Japan Based on Questionnaire Survey Result

According to the results of the Questionnaire Survey (FY2020), the total of Japan's impact AUM and asset manager AUM as of the last fiscal year-end was approximately 512.6 billion yen. The impact AUM as ascertained in the same survey the previous fiscal year (FY2019) was 317.9 billion yen, so major progress has been made. At the same time, with regard to the evolution of impact investing in Japan, a majority of impact investing institutions see the market as “about to take off” (Figure 30). It was also found that, compared to the international impact investing market, which is viewed as “growing steadily,” Japan is still at the stage immediately preceding growth (Figure 31).

Regarding the motivation for impact investing, the most common response was “in order to meet the needs of clients,” and second was “it's part of the commitment of a responsible investor.” This suggests that Japan's impact investing market is poised for further growth going forward (Figure 29).

On the other hand, while most respondents view Japan's impact investing market as having progressed over the past year in “actions inspired by the Principles for Responsible Investment, SDG Impact (UNDP), and the Operating Principles for Impact Management (IFC),” among others, and in “the public's awareness of and interest in impact investing” (Figure 32), “fragmentary and unsystematic approaches to impact measurement and management” was cited as a challenge going forward both by institutions already engaged in impact investing and those considering entering the market in the future (Figure 33). After impact measurement and management, the next two most commonly cited challenges were “a limited number of impact companies to invest in” and “limited availability of professionals capable of helping impact companies make profits and exit.” It can be assumed that the latter is also an underlying factor for the former. The responses made it clear that Japan still has relatively few impact companies that investors wish to invest in (Figure 33). And, as the market grows, there is a concern of ‘impact washing’ (regular investments are dressed up to resemble impact investing) which may lose the essence of impact investing. In fact, the GIIN Survey 2020 (Figure 12) shows that a vast majority of impact investors cite impact washing as the single most important issue that the impact investing market will face over the next five years.

The spread of the coronavirus, which ran rampant in 2020, the year of this survey, seems to have furthered understanding of the usefulness of impact investing. In fact, in this Questionnaire Survey, impact investing institutions were asked about “the impact of COVID-19 on impact investing activities” in the open-ended question, and the responses included comments such as “It has shined more light on the ‘social’ element and conditions are becoming more conducive to impact opportunities,” and “The emergence of social issues has made more people aware of it ⁷⁹.”

There is likely to be more discussion and practice of impact investing in Japan going forward, and we believe that this report, a kind of fixed-point observation of the current location of impact investing in Japan, can serve as a foundation for discussion while providing suggestions for practice.

We would like to again express our appreciation to all of the people and organizations that participated in the *Questionnaire Survey regarding Impact Investment (2020)*.

It is our hope that this report contributes to solving social issues through impact investing.

⁷⁹ We edited and excerpted part of answers of Question D7: “Please describe the impact (both negative and positive) of the spread of the novel coronavirus infection on your impact investing, if any,” without changing the meaning. The underlines were added by the writer. These comments are the respondents' personal or organizational views and do not represent the view of the GSG National Advisory Board.

List of Organizations Which Responded to Questionnaire Survey

The list shows the 75 organizations that responded to the *Questionnaire Survey regarding Impact Investment* (including 17 organizations which declined to disclose the name; in a Japanese alphabetical order). Nevertheless, not all organizations who responded to the survey listed below are engaged in impact investing as of the preparation of this report.

Figure 61. List of Organizations Which Responded to Questionnaire Survey

- Asset Management One Co., Ltd.
- SMBC Trust Bank Ltd.
- Ehime Bank, Ltd.
- Oita Venture Capital Co., Ltd.
- Kamakura Investment Management Co., Ltd.
- Energy & Environment Investment, Inc.
- KIBOW Foundation
- Kyoei Investment Fund Japan
- The Kyoto Shinkin Bank
- Crowd Credit, Inc.
- Credit Suisse Securities (Japan) Limited, Credit Suisse Tokyo Branch
- Global Brain Corporation
- Japan International Cooperation Agency
- Japan Bank for International Cooperation
- The Sasakawa Peace Foundation
- Sun Messe Co., Ltd.
- CSR Design Green Investment Advisory, Co., Ltd.
- Shizuoka Yaizu Shinkin Bank
- The Social Innovation and Investment Foundation
- Sophia School Corporation
- Shonan Shinkin Bank
- Shinsei Corporate Investment Limited
- Social Investment Partners
- Dai-ichi Kangyo Credit Cooperative
- The Dai-ichi Life Insurance Company, Limited
- The Takamatsu Shinkin Bank
- Takayama Shinkin Bank
- Regional Future Energy Nara
- TNP Partners Corporation
- Digisearch & Advertising Inc.
- Tokyo CPB
- The Tottori Bank, Ltd.
- The Toyota Foundation
- Nagoyalease Co., Ltd.
- Nomura Asset Management Co., Ltd.
- Nomura Real Estate Asset Management Co., Ltd.
- BNP Paribas Asset Management Japan Ltd.
- Hida Credit Cooperative
- Fidea Lease Co., Ltd.
- Fukoku Capital Management, Inc.
- Fukoku Mutual Life Insurance Company
- Future Venture Capital Co., Ltd.
- Plus Social Investment Co., Ltd.
- Breakpoint Co., Ltd.
- Hokuriku Labour Bank
- Hokkaido Rokin Bank
- Mizuho Bank, Ltd.
- Mitsui Sumitomo Insurance Co., Ltd.
- Sumitomo Mitsui Banking Corporation
- Sumitomo Mitsui Trust Bank, Limited
- Sumitomo Mitsui Trust Asset Management Co., Ltd.
- Mitsubishi Corp. - UBS Realty Inc.
- Mitsubishi UFJ Trust and Banking Corporation
- Mutosu Iida Citizen's Fund
- Meiji Yasuda Asset Management Company Ltd.
- Yamaguchi Capital
- Daiwa Securities Group Inc.
- The Rokinren Bank
- 17 organizations declined to disclose their names.

Potential of Japan's impact investing market

– Estimated maximum and methodology –

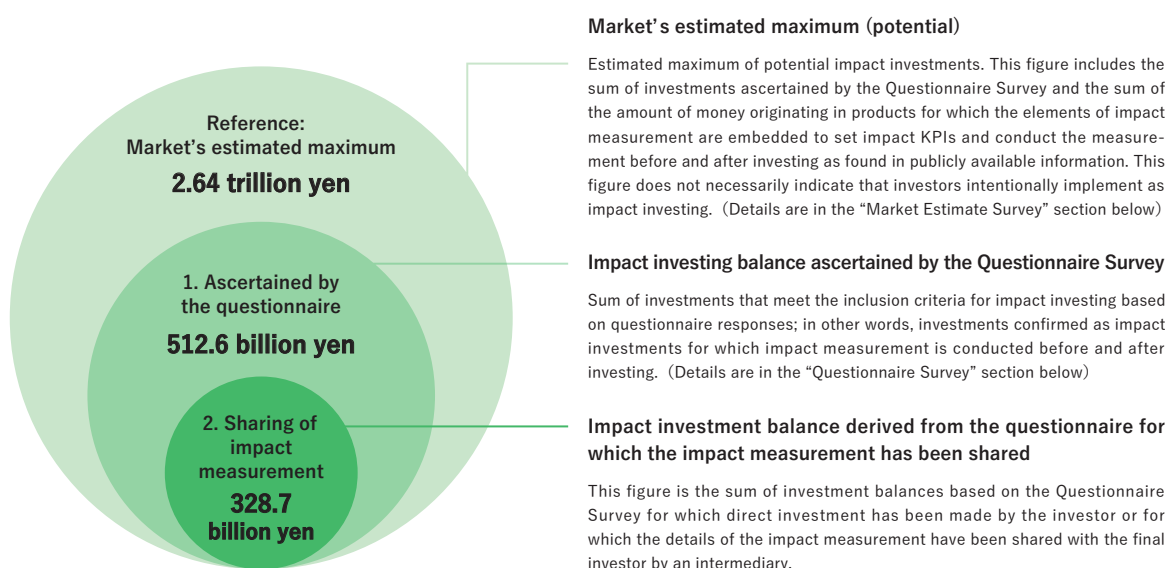
As stated earlier, along with the annual Questionnaire Survey, this fiscal year a market estimate survey based on publicly available information was also conducted to ascertain aspects of the current state of impact investing that cannot be grasped from the survey responses alone. The estimated maximum (potential) of Japan's impact investing market is as shown below. This section introduces the methodology used for the market estimate survey, which was conducted on a trial basis for the first time this fiscal year. It also summarizes the methodologies used by GIIN and IFC respectively for the market estimate surveys that these organizations have led the way in conducting globally.

(Reposted) Market's estimated maximum (potential): 2.64 trillion yen

This figure includes the sum of investments ascertained by the Questionnaire Survey and the sum of the amount of money originating in products for which the elements of impact measurement are embedded to set impact KPIs and conduct the measurement before and after investing as found in publicly available information. This figure does not necessarily indicate that investors intentionally implement as impact investing.

As stated earlier, the estimated maximum of the market based on the *GIIN Annual Impact Investor Survey 2020*⁸⁰ was 715.0 billion dollars (approx. 79 trillion yen). The estimated maximum of the market based on *Growing Impact - New Insights into the Practice of Impact Investing*⁸¹ (IFC) was 505.0 billion dollars (approx. 56 trillion yen).

(Reposted) Figure 62. Scale of Impact Investment Balance



80 (Reposted) *GIIN Annual Impact Investor Survey 2020* (Global Impact Investing Network, GIIN):

<https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf>

81 *Growing Impact - New Insights into the Practice of Impact Investing* (International Finance Corporation, IFC):

<https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing-Impact.pdf?MOD=AJPERES&CVID=naZEST9>

The following is a simplified explanation of the methods used by these two global market estimate surveys. The GIIN survey makes its estimates based on disclosure data from institutional investors by combining a database it created based on its annual questionnaire and the impact investor databases of other companies. On another front, the IFC survey creates its estimate by relying on reporting of impact investment balances by development financial institutions as well as unlisted impact investing funds.

Our survey uses a method that makes reference to both GIIN and IFC. Specifically, the sum of the self-reported balances of impact investments by institutions engaged in impact investing as compiled in the *Questionnaire Survey on Impact Investment (2020)* is combined with the amount of money originated from (impact investing) products for which the elements of impact measurement are embedded to set impact KPIs and conduct the measurement before and after investing as found in publicly available information, and this total amount is set as the market's estimated maximum (potential).

The specific steps in this method of estimation are stated below. Like the market estimate surveys of GIIN and the IFC, the estimate methodology will be reviewed going forward in order to raise the precision of market estimates. Along with this, points to consider regarding inclusion criteria going forward ("Inclusion criteria" at the beginning of Chapter 2) are also discussed in connection with revisions to the estimate methodology.

Methodology of the market estimate survey – Combined approach on investor and product basis –

Step 1. Summary responses to FY 2019 and FY 2020 *Questionnaire Survey regarding Impact Investment*

The impact investment balance of institutions engaged in impact investing has been compiled based on the responses to past years' Questionnaire Survey on Impact Investment (FY 2019 and FY 2020 after updating inclusion criteria). Regarding impact investing through an investment management institution or other intermediary, double-counting with the investment balance of final investors was eliminated to the extent possible.

Step 2-1. Specify product categories for which the elements of impact measurement are embedded, based on the principles and guidelines of each product category

The principles and guidelines for each financial product category (bonds, loans, etc.) were confirmed and product groups identified for which the elements of impact measurement are embedded to set impact KPIs and conduct the measurement before and after investing (sustainability-linked loans, positive impact finance, sustainability-linked bonds, impact investment funds, etc.). Confirmed whether impact indicators were set when the product was arranged and whether conducting impact measurement before and after investing is explicitly stated in principles and guidelines.

Step 2-2. Specify individual products for which impact measurement is embedded

Of Step 2-1, individual financial products and funds for which the elements of impact measurement are embedded to set impact KPIs and conduct the measurement before and after investing, based on public information and questionnaire findings (questions on financial product basis), etc. were identified. Specifically, a list was made of individual financial products for which impact measurement has been established based on corresponding information (measurement reports, press releases, etc.) published by third-party measurement institutes, institutional investors, and financial institutions, etc.

One of the following patterns is assumed.

- Belongs to a category specified in Step 2-1 and complies with corresponding principles and guidelines.
- Even if the product does not belong to a category specified in Step 2-2, it can be confirmed that impact indicators have been set and measurement conducted before and after as separate initiatives (some sustainability bonds, bond products, etc.).

Step 3. Estimated maximum (potential) of the Japanese market

Compiled after eliminating double-counting from Step 1 and Step 2-2 to the extent possible.

As an assumption, regarding Step 2-2, unlike information ascertained through the questionnaire, whether final investors investing in products that could constitute impact investing make their investments after confirming that it does constitute impact investing, and whether the investors themselves conduct their own version of impact measurement are not known, so it differs from the impact investing balance grasped via the questionnaire survey. On this point, it will be necessary to consider revising the methodology going forward based on whether or not to make the intentionality of final investors a requirement for inclusion in impact investment as discussed in the points to consider regarding inclusion criteria going forward ("Inclusion criteria" at the beginning of Chapter 2).

The following summarizes the respective methodologies used by GIIN and IFC, so for details on the calculation method used, refer to the original reports indicated in the footnotes.

Figure 63. Market estimate methodologies of GIIN and IFC (for reference)

GIIN Investor-based approach ⁸²
<p>Step1. Integrate impact investor databases</p> <p>Integrated the investor database managed by GIIN and other organizations' databases (ImpactAssets, Phoenix Capital, signatories to IFC Principles) and created an integrated database of institutional investors practicing impact investing (1728 organizations).</p> <p>Step2. Gather data on impact investing balance</p> <p>For 865 of these organizations, impact investing balances from the most recent term-end (end- 2019) had been reported, as per the integrated database, so these were compiled. For organizations for which there is only investment balance data as of the end of 2018, their balances have been multiplied by a coefficient, the average annual growth rate in impact investing balances from the GIIN survey.</p> <p>Step3. Calculate impact investment balance after excluding double-counting</p> <p>The data in Step 2 is a mixture of the impact investment balances of asset owners and asset managers, so to avoid double-counting, impact investment balances from asset owners through asset managers were removed.</p> <p>Step4. Estimate impact investment balances for organizations for which the balance is unclear</p> <p>Regarding the 863 organizations for which the impact investment balance is unclear, the average investment balance by business category (excluding outliers) from past GIIN surveys, etc. is used as the estimate.</p> <p>Step 5. Estimate overall market</p> <p>Impact investment balances judged by the GIIN survey team to not be included in Step 3 and 4 were also included and the overall estimate calculated.</p>
IFC Financial product + organization-based approach ⁸³
<p>Step 1. Compile sum of unlisted impact investment funds</p> <p>Investment funds are categorized as 1) conventional, 2) impact intention, and 3) impact intention + impact measurement, and the total of assets under management of the funds are tabulated from multiple databases, including the Global Impact Platform (GIP), an online impacting investing database provided by Phoenix Capital. Funds in the second and third categories are judged to be impact investment and tabulated.</p> <p>Step 2. Compile sum of development financial institutions that have signed on to HIPSO ⁸⁴</p> <p>For development financial institutions that have signed on to HIPSO, both multilateral (14 institutions) and bilateral (13 institutions), their investment in the private sector was compiled from public statements and other information.</p> <p>Step 3. Estimate overall market</p> <p>Step 1 and Step 2 were summed.</p>

⁸² GIIN Annual Impact Investor Survey 2020 (Global Impact Investing Network, GIIN), pp. 40-43

⁸³ Growing Impact - New Insights into the Practice of Impact Investing (International Finance Corporation, IFC), pp. 88-89

⁸⁴ Harmonized Indicators for Private Sector Operations

Column 2: Introduction of International Impact Investing Surveys

GIIN Annual Impact Investor Survey 2020

Annual survey (2020 edition) on impact investors conducted by the Global Impact Investing Network. There were 294 institutions that responded to the questionnaire, and the total of impact investment assets under management was 404.0 billion dollars. The survey findings reflect investment activities in 2019, plans for 2020, views on developments over the past 10 years, and the views of respondents on future issues facing the market. Moreover, this report analyzes chronological changes based on responses from 79 institutions that participated in both this survey and the survey in 2016. Also, GIIN additionally asked investors participating in the survey about the impact of COVID-19, so views on its impact on future asset allocation and risk assessment from 122 institutions have been compiled. In addition, based on a database of impact investors with over 1,720 institutions, the scale of the impact investment market is projected to be an estimated 715.0 billion dollars.



Link:

<https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf>

Summary in Japanese:

http://impactinvestment.jp//user/media/resources-pdf/theGIIN_2020_JPN_FIN.pdf

IFC Growing Impact

Survey on impact investing conducted by the International Finance Corporation. This survey on the scale and makeup of the impact investing market estimates that impact investment assets under management in the private-sector market could be as much as 2.1 trillion dollars, but counting only those investments for which both development impact and financial return can be measured, it estimates the market at 505.0 billion dollars. The report also contains trends in impact investing, survey findings on investor practices, and 32 case studies on how signatories to the Operating Principles for Impact Management (IFC) are practicing impact investing.



Link:

https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/growing+impact

Impact investing case studies

This chapter takes up two examples of institutions engaged in impact investment from the chart below as case studies to shed light on the most recent trends in the field.

Figure 64. Case study examples selected and reasons for selection

Name of institution	Method	Reason for selection
Sumitomo Mitsui Trust Holdings, Inc. and Sumitomo Mitsui Trust Bank, Limited	Positive Impact Finance	<ul style="list-style-type: none"> • Suggests the potential of impact investing in debt finance • Importance placed on creating a positive impact in the company's stated purpose (reason for being, objectives) and management strategy (medium-term management plan, value creation model)
Kamakura Investment Management Co., Ltd.	Exchange-traded funds	<ul style="list-style-type: none"> • Investment in listed stock tied to impact

CASE STUDY #1

Sumitomo Mitsui Trust Holdings, Inc. and Sumitomo Mitsui Trust Bank, Limited

Reason for selecting Sumitomo Mitsui Trust Holdings, Inc. and Sumitomo Mitsui Trust Bank, Limited as a subject of the case study

Equity investment (equity finance) in unlisted companies centered on start-up companies has been the mainstream in impact investing in Japan to date, but it is considered that debt finance such as investment in listed stocks, loans and debt investment will also expand from now.

GIIN's research has also found that asset classes of impact investing are diversified into various kinds.

Figure 65. Global impact investment amount by asset class

	Share of investment balance	Share of investment amount in 2019
Individual loans, private placement bonds	21%	37%
Listed stocks	19%	10%
Unlisted stocks	17%	16%
Real assets	17%	10%
Bonds	17%	24%
Equity debt such as convertible bonds	1%	2%
Others	9%	2%

Source: *GIIN Annual Impact Investor Survey 2020* (GIIN)

In the case study for this report, Sumitomo Mitsui Trust Bank, Limited, which works on impact investing mainly in the form of loans and is also looking to expand into other asset classes, and Sumitomo Mitsui Trust Holdings, Inc., its holding company, are taken up to gain input and insight about debt finance. Also, we look at importance of placing creation of positive impact at the center of the company's purpose (reason for being, objectives) and management strategy (medium-term management plan, value creation model)

Positioning of impact investing in the entire management strategy

Management Philosophy of Sumitomo Mitsui Trust Holdings, Inc.

Sumitomo Mitsui Trust Holdings, Inc., which heads up Sumitomo Mitsui Trust Bank, Limited and Sumitomo Mitsui Trust Asset Management Co., Ltd and other companies, has provided that “our purpose,” the company's reason for being, is to “create new value and help make future of customers and society prosperous with the power of trusts.”

Under this purpose, the holding company intends to balance creating value to the society and economic value to itself and stakeholders through provision of positive impact looking ahead to realization of SDGs to stakeholders including customers, society, shareholders, and employees.

The background of reaching to this purpose is related to the said company's history. Though the predecessor of the said company was established in 1924 as the first trust company in Japan, its “charter” advocates the sublime idea of contributing to the national economy with best and optimal operational and problem-solving abilities and a spirit of social service and being an “irreplaceable” company to society, as

well as a firm intention that a trust company is an organization of social and public benefit. In addition, also given that fiduciary business is a mechanism to provide positive impact to third parties, beneficiaries beyond settlors, we can say that this company originally has a spirit leading to impact investing.

Efforts of Sumitomo Mitsui Trust Holdings, Inc. for sustainability

Efforts of Sumitomo Mitsui Trust Holdings, Inc. started to work on sustainability earlier than other Japanese banks, and behind it, the essential role as a trust bank is a starting point. While the company has taken on the function of operating assets under management through trusts and originally made investments in various portfolios, it started “Positive Impact Finance” (hereinafter, “PIF”) in 2019 based on the Principles for Positive Impact Finance presented by UENP FI, and became an original signatory at the time of execution of the Principles for Responsible Banking (PRB) in that year.

Figure 66. Efforts of Sumitomo Mitsui Trust Holdings, Inc. for sustainability

Year	Efforts of Sumitomo Mitsui Trust Holdings, Inc.	Related trends in Japan and overseas
2003	Established CSR division / Joined UNEP FI, and joined the United Nations Global Compact	
2006	Signed the Principles for Responsible Investment (PRI), and established an SRI fund	Established the PRI
2008	Signed the Business and Biodiversity Initiative	
2011	Signed the 21st Century Financial Behavior Principles	Established the 21st Century Financial Behavior Principles
2012	Signed the Natural Capital Declaration	
2014		Established the Stewardship Code
2015	Started materiality management	Adopted the UN SDGs
2016	Signed the Equator Principles	Established the Corporate Governance Code
2017		Established the Principles for Positive Impact Finance
2018		Established the framework for the Principles for Positive Impact Finance
2019	Started Positive Impact Finance (PIF) / Signed the Principles for Responsible Banking (PRB)	Established the PRB

Source: Created based on materials provided by Sumitomo Mitsui Trust Holdings, Inc.

Practice of impact investing by Sumitomo Mitsui Trust Holdings, Inc.

Creation of positive impact in the medium-term management plan and Positive Impact Finance

The medium-term management plan of Sumitomo Mitsui Trust Holdings, Inc., which started in fiscal 2020, calls for “creation of positive impact towards solution to social challenges” to achieve “balance of social value creation and economic value creation.”

As part of this strategy, Sumitomo Mitsui Trust Bank, Limited offered “Positive Impact Finance” (loan that does not limit how the funds can be used, PIF), a new product of loans for companies to which the Principles for Positive Impact Finance presented by UNEP FI are applied, for the first time in the world in March 2019.

Principles for Positive Impact Finance of UNEP FI as a key driver

Behind Sumitomo Mitsui Trust Holdings, Inc.’s efforts for sustainability in recent years, the Principles for Positive Impact Finance, which was established by UNEP FI in 2017, lie in the background. SDGs underlie the principles, and the United Nations also positions impact investing as a method to achieve SDGs. There is a need to secure diverse funding sources to fill financing gaps, and asset classes of global impact investing have been expanding to debts and bonds from equity, which was the initial mainstream.

Figure 67. Principles for Positive Impact Finance

	Principles established by UNEP FI	Practice of “Principles” in PIF
PRINCIPLE ONE Definition	<p>Positive Impact Finance is that which services to finance Positive Impact Business. It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.</p> <p>By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals (SDGs).</p>	<p>Since UNEP FI is originally designed to be conscious of initiatives for environmental issues, it points out the importance of holistic consideration given to not only the positive side of financial activities but also the negative side.</p> <p>Sumitomo Mitsui Trust Holdings, Inc. also places emphasis on reduction on the negative side.</p>
PRINCIPLE TWO Framework	<p>To promote the delivery of Positive Impact Finance, entities (financial or non financial), such as banks and investors, need adequate processes, methodologies, and tools, to identify and monitor the positive impact of the activities and projects, programs, and/or entities to be financed or invested in.</p>	<p>Because it is difficult to make impact measurement only based on the Principles for Positive Impact Finance, the “framework for the principles for Positive Impact Finance” was established in 2018.</p>

	Principles established by UNEP FI	Practice of “Principles” in PIF
PRINCIPLE THREE Transparency	Entities (financial or non financial) providing Positive Impact Finance should provide transparency and disclosure. (Details omitted)	To ensure objectivity and neutrality, Sumitomo Mitsui Trust Holdings Group asks Japan Credit Rating Agency, Ltd., a third-party organization, for impact measurement.
PRINCIPLE FOUR Assessment	The assessment of Positive Impact Finance delivered by entities should be based on the actual impacts achieved.	Monitoring and ex-post assessment are conducted.

Source: Created based on the Principles for Positive Impact Finance (UNEP FI) and interview with Sumitomo Mitsui Trust Bank, Limited

Examples of PIF

Since the introduction in March 2019, Sumitomo Mitsui Trust Bank, Limited has implemented 14 cases of PIF (as at the end of January 2021).

Financing date		Borrower company
2019	March	FUJI OIL HOLDINGS INC.
	December	J. FRONT RETAILING Co., Ltd.
2020	March	Sumitomo Metal Mining Co., Ltd. / Nippon Paper Industries Co., Ltd. / Toyo Aluminium K.K. / Sumitomo Forestry Co., Ltd. / SUBARU CORPORATION
	May	Sumitomo Rubber Industries, Ltd.
	June	Mitsui Chemicals, Inc.
	August	Toray Industries, Inc. / Rengo Co., Ltd. / DIC Corporation / RICOH LEASING COMPANY, LTD.
	December	Sumitomo Dainippon Pharma Co., Ltd.
2021	January	Sapporo Holdings Limited

Of these companies, for example, SUBARU CORPORATION to which a loan was executed in March 2020, has set ① reduction of CO2 emissions due to its activities by 30% (compared to fiscal 2016) by 2030, ② making 40% or more of its global unit sales electric vehicles (EV) + hybrid vehicles by 2030, and others as KPIs to be monitored in conformity with the Principles for Positive Impact Finance of UNEP FI. Other examples have been described in detailed in the said company's sustainability report (<https://www.smth.jp/csr/report/2020/full/all.pdf>).

Characteristics of PIF

① Holistic incorporation and monitoring of impact

While general financing is corporate finance based on credit rating, PIF has incorporated the idea of impact management in accordance with the framework of UNEP FI and adopted processes of goal setting and monitoring.

An important tool for that is the “Impact Radar” promoted by UNEP FI. The Impact Radar consists of 22 categories related to SDGs, and orange represents the economic aspect, black the environmental aspect and blue the social aspect.

ORANGE ... Economic value creation for people and society

BLACK ... Efficient use of quality (physical and chemical properties)

BLUE ... Availability, accessibility, affordability and quality

Figure 68. UNEP FI Impact Radar Source: THE IMPACT RADAR: A TOOL FOR ANALYSIS (UNEP FI)



While UNEP FI will see what impact category a company’s product or service falls into, the use of this radar enables a holistic analysis of positive and negative impacts. The Impact Radar has been promoted as a tool that converts between macro and micro, and KPIs set by one company, a micro indicator, get associated with SDGs, macro.

Depending on companies, classification of categories for services could vary. For example, in the case of

financing for Sumitomo Rubber Industries, Ltd. where the Impact Radar was used for the first time, a vibration damper, a rubber product, was classified as the category of culture and heritage. When attached to pillars of a building, the vibration dampers have the effect of preventing shaking of earthquake in the 8 level on the Japanese scale. This product is used for the Kumamoto Castle, Byodoin Temple and overseas historic landmarks and has contributed to preservation of cultures and heritages.

In utilizing the PIF financing process of UNEP FI framework, Sumitomo Mitsui Trust Bank, Limited thoroughly reads and understands the content, and then pays attention to avoid Galapagos syndrome, that is, avoid overly concentrating on the Japanese market, away from the global trend, while customizing financing to gear to the realities in Japan.

② Holistic intention

One of the characteristics of PIF is not to limit how the funds can be used. Sumitomo Mitsui Trust Bank, Limited does not necessarily provide to solutions focused on certain social issue areas, but intends to holistically assess companies and generate positive impact as the entire company or whole socioeconomic environment.

In the case of listed companies, while they have multiple business groups and a supply chain structure for each of these groups, PRINCIPLE ONE of the Principles for Positive Impact Finance requires a business to be looked at holistically. Accordingly, we identify where negative impact occurs for each business, and set a goal to amplify positive impact while curbing negative impact.

In other words, it is a characteristic that rather than building a portfolio by sector or by a certain issue, PIF looks at the entire company and provides finance with the holistic intention of curbing negative impact and amplifying positive impact as much as possible.

Challenges

First, lack of sufficient human resources who can create a logic model, set KPIs, and implement impact measurement is considered as a challenge to be resolved. In addition, human resources who can even encourage companies' behavioral change (engagement) through financing are also not sufficient yet, and developing such human resources is considered to be a big task in the future. Then, while this is also related to the principle for transparency, it is another future big task to cultivate human resources who can quantify KPIs whenever possible and have an engagement with companies.

Considering the relation between impact and technology to generate new value (impact) through combination of "technology" and "industry," the said company makes efforts to hire highly specialized human resources and conduct teambuilding activities based on the idea of Technology-based Finance, where finance can properly assess risk, return and impact by understanding technology.

Furthermore, the said company defines what an impact analyst should aim to be as "providing appropriate solutions contributing to sustainable growth and an improvement in corporate value to customers, based on the holistic analysis of impact associated with corporate activities," positively thinks about difficulty in implementing training in a group amid the COVID-19 crisis, and has conducted internal training for tens of people by webinar using Zoom and other tools early on to develop human resources.

Suggestions and insights gained from this case study

Engagement through financing, not necessarily from the shareholder status, is possible

This time, Sumitomo Mitsui Trust Bank, Limited and Sumitomo Mitsui Trust Holdings, Inc. have been taken up as a case study to look at practices and future possibility of impact investing in an asset class of loans. The greatest insight gained here is that it is possible through loans, not necessarily through equity investment, to encourage behavioral change of the subject company.

Generally, loan is a funding means to an entire company based on credit rating, and even the said holding company initially thought it might be difficult to change borrowers to society-oriented and environment-oriented companies. However, it has found out borrower companies also recognize that they need to change when considering through the filter of impact.

In one example, when a listed company worked on PIF, it was identified that the company was planning a new business. However, in getting an overview of the entire supply chain for the new business, because this business was thought to cause global warming and damage biodiversity, and also has very high risk in human rights issues, Sumitomo Mitsui Trust Bank, Limited urged the company to withdraw the plan of the new business.

In traditional corporate finance, which depends on credit rating on the repayment possibility, it is difficult to make such behavioral change and the company might have raised funds from other banks. PIF is made public in principle, and information subject to assessment is monitored and disclosed as needed during the loan period. Now there is a growing recognition, among companies, that negative businesses may ultimately lead to a decline in corporate value, and when the financial institution side shows a social- and environment-oriented financing attitude, it is possible to create companies' behavioral change even through routes other than shareholders' rights.

Positioning of impact investing from the perspective of management philosophy and management strategy is important

Sumitomo Mitsui Trust Holding originally set “creating new value and help make future of customers and society prosperous with the power of trusts” as its purpose, and has amplified positive impact into a mission, medium-term plan, value creation model, etc. and developed specific impact investing products to achieve the purpose. That is to say, alignment from the purpose to actual PIF has been made explicitly.

When financial institutions and others promote impact investing, it is considered important to position impact investing at the corporate philosophy level and the strategy level from aspects of cultivating employees' mindset, securing resources, developing human resources, and others.

Holistic approach is important

In traditional impact investing, particularly centered on private equity, focus has been placed on creation of positive impact from products and services. However, this case study has revealed that more holistic impact management, including generation of positive impact while curbing negative impact, and assessment of impact of products and services after holistic assessment of the overall supply chain, is important. While these approaches are a trend resulting from ESG investing, they are considered useful in future development of impact investing.

CASE STUDY #2

Kamakura Investment Management Co., Ltd.

Reason for selecting Kamakura Investment Management Co., Ltd. as a subject of the case study

With impact investing asset classes expected to diversify going forward, major growth is expected in investment in listed stocks. On the other hand, unlike investment in unlisted stocks on primary markets, in which new funds are injected by private equity funds and venture capital, investment in listed stocks primarily takes the form of investment through stock markets, which are secondary markets, so there is a potential danger that sharing intentions with investees, impact measurement, and the exercise of impact will be weakened.

Kamakura Investment Management Co., Ltd. works for sustainable social development primarily by investing in listed stocks. Therefore, taking it up as a case study can help identify the benefits of such investment, as well as related issues, and also provide suggestions and insights for expanding impact investing going forward.

Overview of Kamakura Investment Management Co., Ltd.

History

Kamakura Investment Management Co., Ltd. (“Kamakura Investment Management” hereinafter) is an independent trust management company with the aim of socially responsible finance established in November 2008 by multiple founders with experience in asset management at Japanese and foreign-affiliated financial institutions. It manages and sells Yui 2101, a publicly offered investment trust. Yui 2101’s assets in custody was approximately 47.0 billion yen as of the end of 2020.

- Nov. 2008** Established (paid-in capital: 20 million yen)
- Mar. 2010** Yui 2101 established and management commences (initial clients: 267)
- May 2013** Awarded R&I Fund Award, First Prize (Japanese Equity Fund Category in Investment Trusts Category)
- May 2014** Awarded R&D Fund Award, Second Prize (Japanese Equity Fund Category in Investment Trusts Category), and Second Prize (Japanese Equity Fund Category in NISA Category)
- May 2019** Awarded R&I Fund Award, First Prize (Japanese Equity Fund Category in NISA Category)
- Oct. 2019** Over 20,000 clients
- End of 2020** 20,901 clients

Vision of Kamakura Investment Management investing principles of Yui 2101

Kamakura Investment Management's corporate vision is as follows:

Finance has an extremely large impact on the economy and society. People involved in finance therefore must have a vision of utilizing money for the sustainable development of society, a sense of mission for fulfilling this vision, and the ethics of a trustee entrusted with its clients' valuable money.⁸⁵

And based on these values, it will:

Honor dialogue with investee companies developing in harmony with society and build mutual relationships between investors and investee companies bound by values and trust in order to work for the long-term growth of trust assets and to strive to simultaneously build assets for investors while pursuing sustainable social development.⁸⁶

To realize this vision, with the investment trust Yui 2101, the company will:

Continue to invest money entrusted to us by clients in companies that grow while maintaining harmony with all their stakeholders, which will be truly necessary in Japan going forward, and continue to support and encourage them.⁸⁷

This represents the company's basic investing principles.

Yui 2101 investment behavior

Policy on selecting investees

Yui 2101 selects investees based on the following three themes and with a basic motto of "investing in good companies:"

People : Companies that effectively utilize human resources

Coexistence : Companies helping to create a recycling-based society

Craft : Companies that provide skilled Japanese techniques and highly impressive services

Based on this selection policy, as of the end of February 2021, Kamakura Investment Management invests in around 70 companies, in the stock of listed companies and bonds of unlisted companies.

Method of searching and deciding on investee companies

The job of identifying investee candidates is generally performed by the company's several asset managers, but there are also referrals through the network of the company's executives as well as through its

⁸⁵ Kamakura Investment Management, President Kamata's Greeting (<https://www.kamakuraim.jp/company/>)

⁸⁶ Stated in "About Yui 2101" (<https://www.kamakuraim.jp/about-yui2101/>)

⁸⁷ Ibid.

clients. The company narrows down the issues based on the investment themes of Yui 2101: people, coexistence and craft.

Decisions on suitability for investment are made after interviews with multiple people in the candidate company, including executives and IR department. After confirming in the interviews how the company intends to contribute to society, quantitative and qualitative compliance targets are set. For example, potential investees based on the “people” theme may have the separation rate as their characteristic, or if the company champions economic self-sufficiency for people with disabilities, employment rates and formats for people with disabilities will be monitored.

What the company looks at when investing in individual companies, and whether investees are actually complying with their targets, is all disclosed on the company’s website and is also reported as the beneficiaries meeting discussed below.

Policy on allocating investment amounts

Yui 2101’s investors include many people relatively new to investing. The company has judged that 20% annual volatility in the stock market on average can be a high psychological barrier, so it keeps around 40% of Yui 2101’s entrusted assets in cash and generally limit volatility to 10% or less.

At the same time, Kamakura Investment Management believes it is possible for social aims and investment returns to coexist, and it targets returns of around 4% annually (net of trust fees). Market risk is limited by holding 40% in cash, while 60% of the funds are managed, so the actual investee return needs to be around 7%. This is one of the reasons why the Yui 2101 portfolio mostly invests in small-and mid-cap stocks, including companies with high growth potential.

Assessment and engagement with investee companies after investing

After investing, quantitative and qualitative information are monitored. For example, investee companies in the “coexistence” category are monitored for whether they are adding value to local communities and the environment. Engagement is primarily performed through meetings with executives and IR department, the same as before investing, but the company does not generally attend the general meeting of shareholders of investees partly because of the cumbersome procedures that are required for investment management companies, which are not direct shareholders, to attend. Also, there is particular emphasis on direct communication with investees that are unlisted companies because they do not disclose as much information as listed companies.

Kamakura Investment Management’s basic policy is to continue holding good companies as long as they are good companies, but if an investee company adopts behaviors in conflict with the investment themes of people, coexistence and craft (for example, in the case of a serious compliance violation or disregarding the rights of employees), it is removed from the portfolio, which actually does happen.

Reporting and sharing information with beneficiaries

Kamakura Investment Management puts emphasis on reporting to final investors, called the “beneficiaries” of the investment trust, and sharing information with them, and has established various channels for this purpose. The company reports on the impact of investees through these channels in some cases, and in other cases the management of investee companies report directly to beneficiaries.

Figure 69. Examples of information disclosed to investors by Kamakura Investment Management

Frequency	Meetings	Disclosure through print & online media
Disclosed once per year	General Meeting of Beneficiaries® Held to report fund settlement and promote mutual understanding between final investors, investees, and Kamakura Investment Management’s fund managers.	Investment management report Created at each fund settlement date and distributed to final investors.
Regular disclosure during the term	Investment report briefing Held twice a year (spring and fall) to explain recent fund management to investors in different regions, including Hokkaido and Kansai.	Yui Dayori (monthly investment report) Along with monthly disclosure of fund management, includes investee company information, event information, etc.
As necessary	Good Company Visits®/ executive seminars Opportunities created to visit investee companies and for their executives to directly explain their company’s philosophy, vision, and businesses to final investors.	Investees that are “good companies” Investees are disclosed not only to final investors but to the general public online. The reasons for investing in each individual company are disclosed.

Source: Created from Kamakura Investment Management’s website.

Development going forward

Yui 2101 is primarily focused on the stocks of listed companies in light of the ease of surveying the companies and the liquidity of their stock after investing. In addition, after a survey of companies based on Kamakura Investment Management’s selection policy, it anticipated that small- and mid-cap stocks would be the main assets under management, more so than large-cap equities.

While at the same time, the company puts great emphasis on the nature of the funds flowing in and is careful to attract investors in harmony with its investment philosophy. For this reason, it does not use splashy advertisements or marketing companies, and basically works to capture latent investors with a mindset of acquiring information and doing research themselves based on social media, personal blogs, and word-of-mouth.

Suggestions and insights gained from the Kamakura Investment Management case study

The following suggestions and insights can be gleaned from the behavior of Kamakura Investment Management, which seeks to help build a better society through investment in listed stocks.

Possible to tie investment to impact and perform engagement even with listed stocks

Compared to impact investment in which impact is created through startup companies, impact investing through listed company stocks has been cited as difficult to rate because ① it is difficult to confirm the company's intentionality, and ② with listed companies, generally, the bigger the company, the more difficult it is to see the relationship between investment and actual impact creation.

Regarding confirmation of intentionality, Kamakura Investment Management makes considerable effort to analyze companies that are candidates for investment, and through proactive research that does not just rely on disclosed information and through communication, it selects companies with intentionality that align with its investment themes of people, coexistence, and craft. Also, on the matter of linking investment to actual impact creation and its measurement, Kamakura Investment Management holds regular discussions, even after investing, with the investees' executives and IR departments and confirms that the quantitative and qualitative targets set prior to investing are being met.

Accordingly, there is essentially no difference between unlisted stocks and listed stocks; rather, what is important is whether through the quality and quantity of communication trust can be built with investee candidates and the business and direction of the company is understood on the basis of that trust.

By building trust underpinned by appropriate communication in this way, it becomes sufficiently possible even with investment through listed stocks to confirm the intentionality of investee candidates in the same manner as investment in unlisted companies, and to link investment and impact and conduct measurement. There are useful suggestions and insights for expanding asset classes for impact investing going forward.

Importance of the nature of the funds

Kamakura Investment Management puts forth three investment themes (people, coexistence, and craft) when selecting issues for inclusion in Yui 2101, but it takes some time for impact to be created in society through investment in these companies. Whether investors are able to patiently wait out this period is crucial. Kamakura Investment Management spends time explaining the philosophy and significance of Yui 2101 and works to find investors that are sympathetic with them.

In order to work to expand impact investing in Japan going forward and increase the number of impact investors in the retail sector especially, it will be important to comprehensively explain the social ideals being pursued and the social issues for which solutions are being sought.

Contributed Articles: Topics in Impact Investing

Though impact investing is growing, there are still many challenges, from the definition of impact investing and the methods used to measure impact to the correlation between impact and returns, ensuring appropriate exit methods, and its positioning as an asset class. In promoting the healthy development of impact investing, it is essential that understanding be deepened between market participants and related public- and private-sector institutions and that there be cooperation between the public and private sectors as it is needed, including for appropriate infrastructure.

Against this backdrop, two study groups related to impact investing were established in Japan in 2020 to serve as hub organizations. Takeshi Mizuguchi, Professor in the Faculty of Economics at Takasaki City University of Economics, chairs both of these groups. Here he explains key issues in impact investing that have come out of the various discussions currently taking place at the groups' meetings.

At the same time, internationally, impact measurement and management (IMM) has become an important trend for impact measurement. When measuring impact, the focus tends to be on method, but in order for impact investors to clearly generate "intentional impact," it is important to view impact measurement as a part of impact management and to understand the significance of investors' intentionality and theoretical approaches to investment results, etc. Katsuji Imata, President of the Social Impact Management Initiative (SIMI) and Co-CEO of Blue Mable Japan, Inc., gives us a summary of impact measurement with a focus on IMM.

In order to promote further growth and widespread practice of impact investing, it will be important for there to be an increase in business operators opting for impact investment from among the various fund-raising vehicles available to them. For this to happen, there needs to be understandings among business operators of the significance of being a recipient of impact investment. Yoshiaki Ishikawa, Director, CFO, and Impact Officer at Life is Tech, Inc., has therefore provided his views from the frontlines of impact investment and business practice on the significance of impact measurement, the relationship with impact investors, and prospects for impacting investing going forward.

The opinions expressed in these articles belong to the contributors; they do not represent the official views of their affiliated organizations or the GSG National Advisory Board (NAB) Japan.

List of contributed articles

No.1

Main Issues for Impact Investing in Japan

Takeshi Mizuguchi, Professor, Faculty of Economics, Director and Vice-President, Takasaki City University of Economics

Professor Takeshi Mizuguchi chairs both the Study Group on Impact Investment, which is co-organized by the Financial Services Agency and GSG-NAB Japan, and the Positive Impact Finance Task Force, established by the ESG High-Level Panel and administered by the Ministry of the Environment. In this article, he identifies key points of debate from among the issues discussed by both these groups and summarizes them with reference to his personal views. Professor Mizuguchi also serves as chair of the Expert Panel on Sustainable Finance⁸⁸ established by the Financial Services Agency.

No.2

Impact investing and IMM

Katsuji Imata, President, Social Impact Management Initiative,
Co-CEO, Blue Marble Japan, Inc.

The article introduces impact measurement and management (IMM), a basic concept of impact investing, and explains why it is necessary in IMM to ask “why” and “what” before considering “how.” It also discusses the importance of intentionality and practical standards for impact investing and explains different approaches as the field continues to evolve. Finally, Mr. Imata suggests promoting IMM as the best of the measures that are needed to bring the thinking and practice of impact investing into the mainstream.

No.3

Impact investing from a startup’s point of view

Yoshiaki Ishikawa, Director, CFO, and Impact Officer, Life is Tech, Inc.

This article summarizes Mr. Ishikawa’s thoughts on impact investing and business practice from the standpoint of an education startup that is promoting its business together with an impact investor. It conveys the views of a frontline participant on the significance of impact measurement as a form of R&D, relationships with investors who are partners in impact generation, and prospects for the future of impact investing as gleaned from interactions with the younger generation.

88 https://www.fsa.go.jp/singi/sustainable_finance/index.html

Contribution No.1

Main Issues for Impact Investing in Japan

Professor, Faculty of Economics, Director and Vice-President, Takasaki City University of Economics

Takeshi Mizuguchi

1. Introduction

In FY 2020, two research groups went into action over impact investing. One of the groups is the Study Group on Impact Investment⁸⁹ which is co-organized by the Financial Services Agency and GSG-NAB Japan, and the other one is the Positive Impact Finance Task Force⁹⁰, established by the ESG Finance High Level Panel and administered by the Ministry of the Environment. Although it seems that differences in the names between “Investment” and “Finance” and “Study Group” and “Task Force” represent subtle differences in stance between the two groups, both groups have members of many market players and engage in deep discussions. Many members are involved in both groups. While there is no significant variance in discussions of the both, some challenges have become apparent through discussions. Of these challenges, major ones are taken up and discussed in this article. While the writer serves as chair⁹¹ of both the study group and the task force, this article does not represent either side and does not present a viewpoint as the chair. This article shows a purely personal view.

2. Overview of the study group and the task force

At the beginning, a brief overview of the two research groups that have started from FY 2020 is offered.

(1) Impact Investment Study Group (Financial Services Agency and GSG-NAB Japan)

The Impact Investment Study Group has held a meeting once every two and a half months since June 2020. Members at the inception were 35 people centered on business people, and the group gathers nearly 100 participants in every meeting including observers. At the first meeting (June 18), a discussion about a holistic view on impact investing were held, and diverse opinions were exchanged on a relation between having an intention and fiduciary responsibility, how to conduct impact measurement⁹², connections between social return and economic return, concept of timeline, and other matters. At the second meeting (September 3), based on the results of a questionnaire targeting members done in advance, views were exchanged on four issues extracted: ① position of initiatives, whether it is biaxial or triaxial, ② relationship with global trends, ③ necessary measures, and ④ impact measurement. At the third meeting (November 20), a deeper discussion was conducted with a focus on impact measurement. These issues are mutually connected, and some aspects of them are presented below.

89 <https://impactinvestment.jp/activities/fsa-study.html>

90 http://greenfinanceportal.env.go.jp/policy_budget/esg_highlevelpanel/pif_taskforce.html

91 As of contributing the article at the end of December 2020

92 The Study Group on Impact Investment uses the phrase “impact measurement,” instead of “social impact measurement.”

(2) Positive Impact Finance Task Force (Ministry of the Environment)

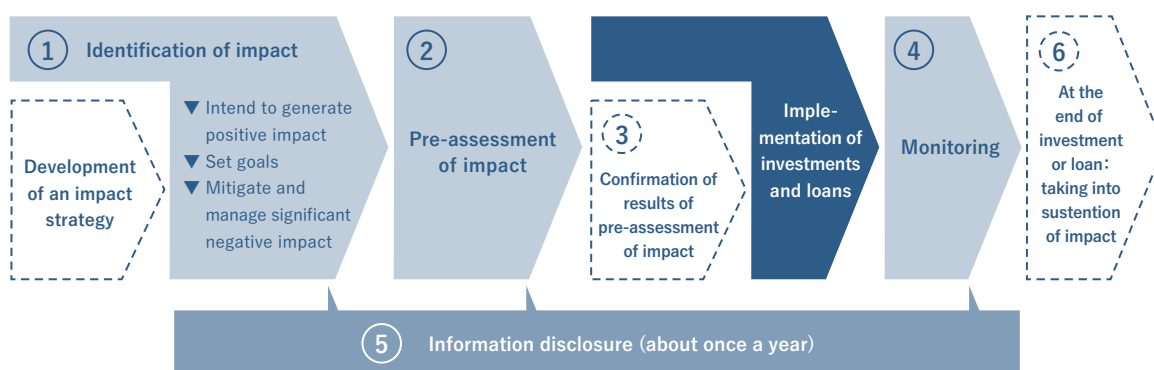
The ESG Finance High Level Panel was established in February 2019 as a place where industrial leaders in the finance and investment fields get together to discuss ESG finance. The second High Level Panel session held in March 2020 decided to set up the Positive Impact Finance Task Force under the said panel and started activities in April.

The task force published the *Concept Paper on Impact Finance* as its first report in July and reported it at the third High Level Panel session in October. In response, the panel adopted the Declaration for Creating Positive Impact through Developed ESG Finance, and has declared that each financial entity makes efforts for promotion and practice of impact finance in collaboration with necessary stakeholders to create positive impact on the environment and society through ESG finance, among others. The task force continues to take action to develop the *Green Impact Measurement Guide*.

(3) Overview of the Concept Paper on Impact Finance

The *Concept Paper on Impact Finance* by the above task force was developed in the stance of ① giving consideration to consistency with global trends, ② being premised on non-compulsory and voluntary efforts of market players, and ③ encouraging the spread in accordance with the context of Japan. First, in light of UNEP FI's Principles for Positive Impact Finance, GIIN's definition of impact investing and others, impact finance was defined with four elements: (i) having an intention to appropriately manage material negative impact and create positive impact, (ii) measuring and monitoring impact, (iii) disclosing information, and (iv) ensuring appropriate risk and return. Then, the basic pattern of impact finance was organized as in Figure 70.

Figure 70. Basic pattern of Impact Finance



Source: excerpt from p.12 of the Ministry of the Environment (2020) *Concept Paper on Impact Finance*

3. What does impact investing aim for?

One thing that emerged through discussions by these groups is a wide range of the concept of impact investing or impact finance. The “*Concept Paper on Impact Finance*” classifies this point into two things: “what holistically understands diverse impacts of companies” and “what aims for certain positive impact based on a project or fund, etc.” And the paper organizes ideas with a view to the both. In other words, image of impact investing varies from person to person. Then, can we say this is an “issue”?

Because individual financial institutions and investors just work on “what they believe is impact investing,” it is fine that there are other diverse ideas on impact investing and there may be a view that this is not a particular issue. On the other hand, some are concerned about impact wash. While initiatives in Japan and abroad hope to maintain quality of “products advocating impact investing” which would continue to appear in the market in succession, they should intent to expand the scale of impact investing and mainstream it. From such a standpoint, “what kind of” impact investing is aimed for is an issue.

The reason for the diversification of the concept of impact investing is flows with different places of origin, in addition to a difference in asset classes. As is well known, the predecessor of the current GSG (Global Steering Group for Impact Investment) is the G8 Impact Investment Task Force called for by the then UK Prime Minister Cameron in 2013. The point of origination was Social Impact Bonds connected to performance-linked payments. A typical image of impact investing evolved from that point is the existence of companies with resolution of certain social issues as their direct mission, and investment in these companies. Main targets are mainly unlisted companies, and investments in start-ups are typical. However, that is not enough to expand the market scale. Then came impact investing funds targeting listed shares. However, there is controversy regarding whether the framework of impact investing premised on problem-solving-type investments can be used without any change.

Meanwhile, the United Nations Environment Programme Finance Initiative (UNEP FI), which was involved in development of the Principles for Responsible Investment (PRI) together with the Global Compact in 2006, released the Principles for Positive Impact Finance in 2017 and the Principles for Responsible Banking (PRB) in 2019. Principle 2 of the PRB declares that we (banks) “will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services.”

In addition, the PRI also advocated “Moving from awareness to impact” in the three-year plan in 2015, released the Impact Investing Market Map in 2018, and came up with the concept of “connecting financial risks to outcomes in the real world” in proposals in the new three-year plan in October 2020. Behind it, there seems to be an awareness that negative externality of investments becomes systemic risk from the standpoint of universal owners. This means there is a standpoint that considers impact finance and impact investing as development of ESG finance/ESG investment.

In any position, a core element of “intention to seek measurable positive impact” is shared, but there is a difference between bottom-up impact investing to work to solve individual problems, so to speak, from

grass roots efforts, and top-down impact investing where an idea is generated from the perspective of what financial system should be. Whether is “mainstreaming” considered as regarding impact investing as certain investment and loan products and growing their market to a certain scale? Or whether should we take into consideration impact investing in all investments and loans as every investment and loan always shave some impact? While both points are important, we need to understand that there are different standpoints.

4. Relation with fiduciary responsibility

What was controversial at the first and second meetings of the Impact Investment Study Group is whether it is biaxial or triaxial. This means that whether investment decisions are made biaxially from the viewpoint of risk and return, or triaxially from the viewpoint of impact in addition to the two. *The Impact Investment: The Invisible Heart of Markets*, a report published by the G8 Impact Investment Taskforce in 2014, states that “a paradigm shift” is required “in capital market thinking, from two-dimensions to three” at the opening and Impact Investment is “bringing a third dimension, impact, to the 20th century capital market dimensions of risk and return.”

Because impact investing seeks impact with purpose, three axes appear obvious. The problem is how the relation with risk and return is seen. Is that a causal relation? That is, do we think the impact leads to return, or do we think that the greater the impact is, the higher the return is? And do we aim for impact that leads to return? Does this mean that the idea is based on the two axes after all? Or, should we think that the two sides are originally independent? Then, should we aim to balance the two by devising a solution to creating impact while also generating return?

This also relates to how to take timeline. Given that social impact translates into return in the long term, this will lead to a discussion about dynamic materiality argued by the GRI, etc. This is the hypothesis that social materiality will translate into financial materiality over time. On the other hand, from the standpoint of universal owners, reducing negative externality (negative impact) and seeking positive impact results in indirectly protecting interests of a whole portfolio by protecting the basis of economic activities for environment and society. This is triaxial as the evaluation axis for investment decisions, but may be biaxial as purpose.

Such a discussion might be seemingly just an idealism. However, depending on where we stand, what kind of impact and how far we seek vary. Furthermore, the difference in standpoints also relates to fiduciary responsibility. Of course, none of investors think it is fine to neglect fiduciary responsibility. The problem is an interpretation of fiduciary responsibility regarding the scope of fiduciary responsibility. There are multiple different positions.

A common interpretation in Europe is probably that consideration of ESG must not sacrifice risk and return, and conversely, elements of environment and society are allowed to be taken into account for an investment with risk and return equivalent to other investments. However, there is a tougher standpoint mainly in the US. That is to say, there is an opinion that consideration given to environment and society

is “considering what should not be considered, without considering what should be considered” and negligence fiduciary responsibility. In this position, “balancing the two sides” cannot be accepted. On the other hand, these days, some research shows that there are “sustainability preferences” in which it is hoped that investments are made also taking into account environment and society, on the sides of individual investors and beneficiaries. If that is the case, is it enough to limit the interpretation of fiduciary responsibility that first priority should be given to beneficiaries’ interests, to monetary return? Thus, evidently the relation with fiduciary responsibility is one of important issues in impact investing.

5. Impact measurement

At the third meeting of the Impact Investment Study Group, it was discussed that the essence of what is currently called “social impact measurement” in Japan is IMM (Impact Measurement and Management). Although understanding on IMM has grown, it will continue to be an issue how this method can be applied to investments in listed shares and corporate loans of companies engaged in diverse businesses.

In addition, IMM is impact measurement as a process for impact investors to clearly generate “intentional impact.” Although this is understandable as an indication of honesty of investors advocating impact investing, large and small impacts cannot necessarily be compared among different impact investments. So a discussion on value assessment of impact in terms of valuation has started. However, I think how far appropriate valuation is possible and whether it should be made in the first place are also future issues.

Contribution No.2

Impact Investing and IMM

President, Social Impact Management Initiative
Co-CEO, Blue Mable Japan, Inc.

Katsuji Imada

IMM, Impact Measurement and Management. It is translated as “Impact Measurement and Management.” When organizations that implement an impact investment and investors who intend to practice it say, “But impact measurement⁹³ is difficult (seems difficult)...,” I recommend you to riposte, saying, “Oh, IMM.”

Definition of IMM

The GIIN (Global Impact Investing Network), which is known as the ecosystem builder for impact investing, periodically conducts research of individuals and organizations related to impact investing and publishes the results. The second edition (first edition was released in December 2017) of *The State of Impact Measurement and Management Practice* released in January 2020 showed that respondents who think that a progress was made “considerably” or “to some extent” in “investors’ understanding on practice and reporting of IMM,” “guidance in IMM,” “sophistication of IMM-related tools and frameworks,” “research and data on practice of IMM,” and “experts with IMM skills” in the past three years accounted for nearly 90%, or 90% or more (p.26). Putting it another way, in the last three years or so, the term and concept of “IMM” gained a foothold in the world of impact investing. Since the IMP (Impact Management Project) set up in 2016 coordinated the basic ideas including “ABC Impact Classification” and “Five Dimensions of Impact,” a common understanding on the basic concept of impact investing is growing⁹⁴. We can say IMM is one of them.

Let’s see the definition of IMM by the GIIN.

Process of identifying and considering the positive and negative effects one’s business actions and investments have on people and the planet, and then figuring out ways to mitigate the negative and maximize the positive in alignment with one’s goals⁹⁵

And immediately after this definition, the sentence “Impact measurement & management is iterative by nature” follows. This adjective “iterative” is a word often heard in recent years when exchanging opinions with intellects and practitioners on impact investing and impact management. Above all, this shows that so-called impact measurement is neither sporadic nor linear.

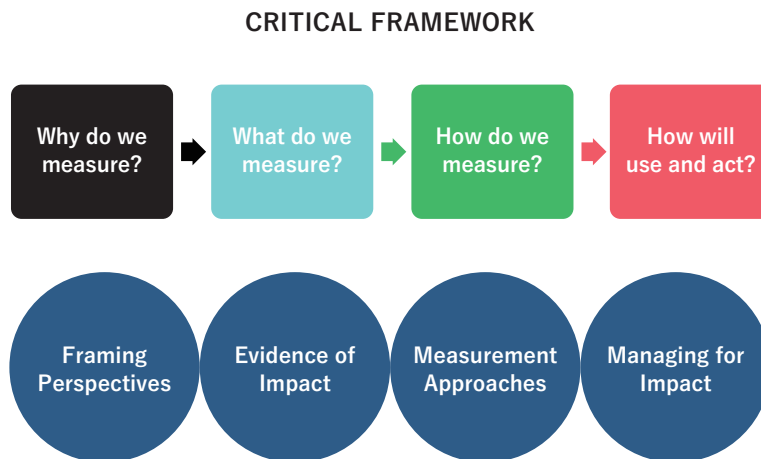
93 In actual discussions about impact investing, “impact measurement,” with “social” removed, may be often used.

94 For example, refer to the glossary of SDG Impact. <https://sdgimpact.undp.org/assets/SDG-Impact-Standards-Glossary.pdf>

95 <https://thegiin.org/imm/> (Preliminary translation made by the writer)

Need to ask WHY and WHAT before HOW

Figure 71. from Oxford Impact Measurement Programme, Karim Harji



Source: Impact Measurement and Management (IMM), Trends, Approaches and Prospects, Karim Harji (2020)

At the third meeting of the Study Group on Impact Investment hosted jointly by the Impact investment and GSG-NAB Japan, which was held on November 20, 2020, impact measurement⁹⁶ was picked up as the subject⁹⁷. As a foreign intellect appropriate as coach on this subject, Karim Harji, who operates the Impact Measurement Program at the Saïd Business School, the University of Oxford, explained on video. Figure 71 shows the steps of IMM utilized by Mr. Harji for the said program. When I had a pre-meeting regarding the explanation on video with him, he said, “The situation where people want to jump at The HOW is all the same for Japan and abroad.” This program is said to tell students to ask WHY and WHAT before HOW.

Firstly, WHY. That is, why a measurement is made. Is it to justify an envisioned theory or investment decision, to achieve better engagement with the investee company or improve business activities of the investee, accurately understand positive and negative impacts on people and ecosystem directly affected by the business, or to deepen consideration of sources of impact generation, innovation and gap with needs?

Secondly, WHAT. Specifically what is measured. Answering this question is predicated on the existence of theory of change envisioned along with setting of own impact theme and impact goal in addition to WHY. In order to monitor whether things is transiting toward the impact goal, it is necessary to be able to explain how the object to be measured is related to the impact goal (even if it is at the hypothesis in many cases).

⁹⁶ The Study Group on Impact Investment uses the phrase “impact measurement,” instead of “social impact measurement.”

⁹⁷ <https://impactinvestment.jp/news/research/20201204.html>

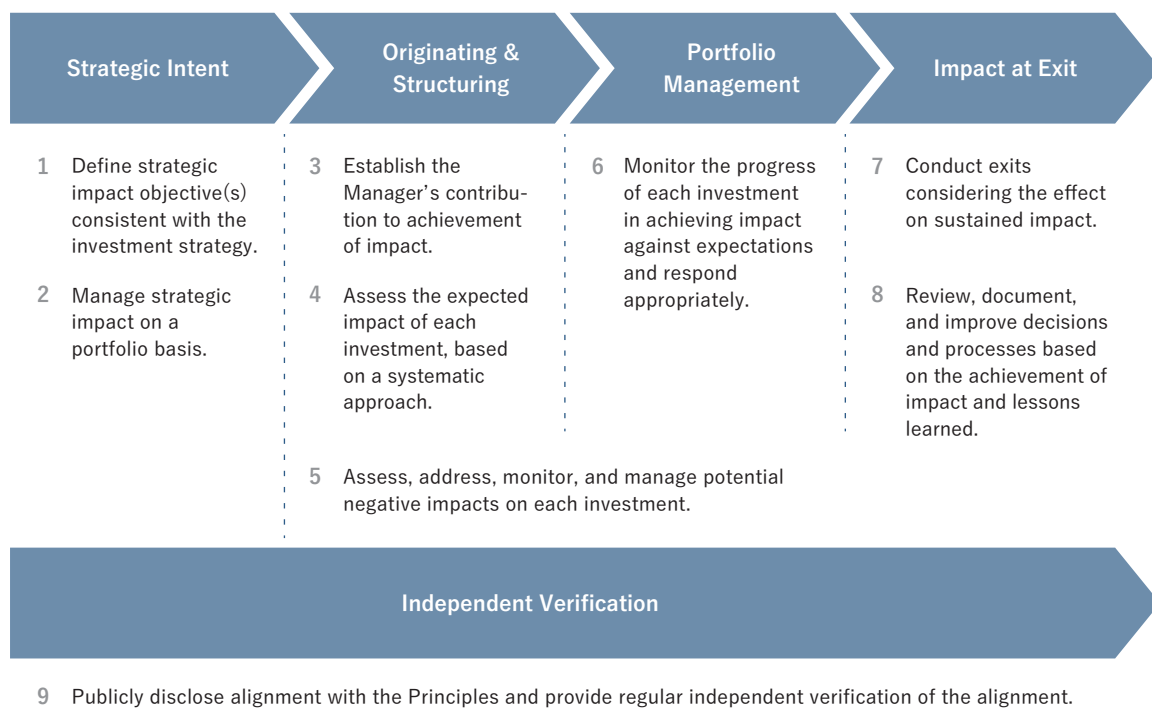
You will reach HOW at last through these two steps. Then it continues into utilization and action. We are asked how lessons and discoveries from measurement including quantitative and qualitative information are connected to next decision-making to continue efforts to improve impact. Conducting these activities just “iteratively” is the practice of IMM.

Intention and practical standards as top priority

At home and abroad, importance of intention or intentionality is talked about in the introduction to impact investing. To both investors and business companies, intention to create impact, strategy design to actually generate impact, and the implementation will establish impact investing. Amid severe change in the environment surrounding impact investing, this basic has not changed. For that reason, it is necessary to also ask WHY and WHAT before HOW in assessment. That is because it is a question about strategic characteristic of investing and business actions.

IMM and the word of iterativeness seen frequently in implementation of IMM call for making constant review of strategy based on intention a habit. Best practice there is the one that answers the question of not “what kind of impact is generated through IMM” but “what kind of things are done in IMM.”

Figure 72. Operation Principles for Impact Investing (Japanese translation for reference)



Source: Investment seeking impact: Japanese translation of Operating Principles for Impact Investing for reference (IFC) (2019)

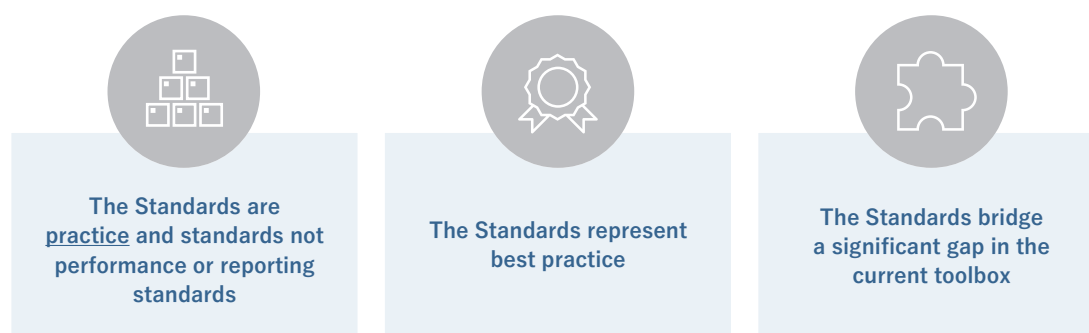
Take a look at two things that are becoming reference points for such best practice. One is the Operating Principles for Impact Management developed under the leadership of the International Finance Corporation (IFC). Starting with an intention, steps leading to exit are shown in the form of eight principles, and Principle 9 represents “Independent Verification.” The principles were published in April 2019, and signing organizations increased to 109 organizations as of December 2020⁹⁸.

The other is the SDG Impact Standards⁹⁹. This is currently being developed by the United Nations Development Program (UNDP) as the standards for impact generation under the mission of “offering ideas and tools necessary to enhance contributions to achievement of SDGs” to both investors and business companies. Three types of standards for private equity funds, bonds, and enterprises are created. There is also a plan to conduct impact certification as well. This is also of strong interest to company-related individuals in Japan, and over 300 people participated in an online briefing held in December 2020.

At this briefing, it was reminded that the SDG Impact Standards “is practical standards, rather than performance standards and reporting standards.” To us, standards are associated with something like “things that it is enough to do” or “being successful when certain scores or more are obtained.” However, for business activities aiming at impact investing and impact generation, there are too many uncertainties to develop standards for “being successful when such impact is generated in such activities.” While discussions on standardization are progressing, the discussions have not yet been matured to the level where a consensus can be built for standards for generated outcomes (impact performance)¹⁰⁰. In the SDG Impact Standards, what will be the standard form is the way of IMM, rather than outcomes of performance.

Figure 73. Explanatory materials for the SDG Impact Standards (from the 12/4/2020 UNDP briefing)

Three key things to remember about the SDG Impact Standards



Source: Contributing positively to the SDGs-Standards for Enterprises, United Nations Development Program (UNDP)(2020)

98 <https://www.impactprinciples.org> “Operation Principles for Impact Investing” in Japanese translation for reference.
https://www.ifc.org/wps/wcm/connect/fe499630-792d-434f-8dd2-f5d06da4c1ed/Impact+Investing+Principles_+FINAL.pdf?MOD=AJPERES&CVID=mSUxyEd

99 <https://sdgimpact.undp.org/practice-standards.html>

100 For example, refer to Standardization in Impact Management by the IMP.
https://29kjwjb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/IMP_Standardisation-in-impact-management-discussion-document.pdf

Integration, and evolution to integrity

The idea that the starting point of impact investing is intention cannot be removed. However, as IMM is spreading, thoughts on impact investing are also evolving, and an awareness that integration is necessary is being popularized and the implementation is progressing. Many asset holders and investment management companies have become to use IMM in various phases in the form where IMM is integrated into a series of investment processes, for example like impact due diligence¹⁰¹, in the entire investment process.

With integration as the pass point, the idea of impact integrity has been particularly discussed in recent years. This comes from a great sense of caution of people promoting impact investing about “impact washing.” Impact washing includes investments which are labeled as impact investing but where impact strategy is halfway in essence, the basic of IMM is not implemented, generated impact is overclaimed, or impact not resulting from own efforts are explained as being generated by own efforts. Impact integrity is almost equivalent to preventing impact washing and ensuring quality of impact investing, and is to stop the circulation of “fake” impact investing amid expansion of the scale of the impact investing field to be mainstreamed. Phrases “rainbow washing” and “SDGs washing” have also come to be heard. This represents reality where there is the trend of washing also increasing as the society seeks social and environmental impact. When we reach impact integrity, we have come back to the awareness that “HOW is essential” to ensure quality, from “WHY and WHAT before HOW.”

While of course “washing” should be avoided, when we try to measure impact too strictly, it will be concluded that we “cannot.” Particularly in Japan where impact investing and the implementation have not spread much, there are some concerns about emphasizing impact integrity too much resulting in hindering the entry. What matters is the transparency and information disclosure, as well as a stance of explaining what is implemented, including IMM, externally in implementation of impact investing.

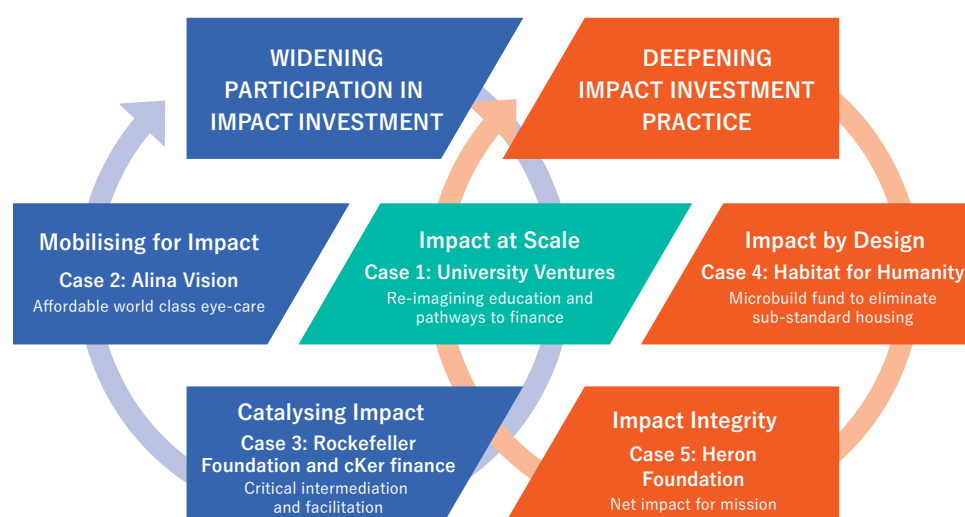
¹⁰¹ For example, refer to the summary by Pacific Community Ventures.

<https://www.pacificcommunityventures.org/2019/07/03/impact-due-diligence-guide/>

Closing: toward mainstreaming impact

Figure 74 shows an extract from the working group report for formation of ecosystem of impact investing released by GSG in 2018¹⁰². For the concept and implementation of impact to become the mainstream in society, while Widening Participation in Impact Investment and impact management of investors and business companies at an accelerated pace is necessary, efforts for Deepening Impact Investment Practice and preventing impact washing that damages credibility of impact investing as much as possible should not be neglected. At the moment, what is regarded as the best measure to secure the both is the spread of IMM. Can we spread impact with the power of finance and move ahead toward creating a sustainable and fair society? I think we are approaching a critical stage.

Figure 74. GSG vision of expansion and deepening of impact investing (October 2018)



Source: *The Impact Principle: Widening participation and deepening practice for impact investment at scale*, GSG (2018)

102 The Impact Principle: Widening participation and deepening practice for impact investment at scale
<http://gsgii.org/wp-content/uploads/2018/10/GSG-Paper-2018-Widening-Deepening-the-Market.pdf>

Contribution No.3

Impact investing from a Startup's Point of View

Director, CFO, and Impact Officer, Life is Tech, Inc.

Yoshiaki Ishikawa

In this article, I summarized my thoughts on impact investing and business practice from the standpoint of an education startup that is promoting its business together with an impact investor. While I have many things I would like you to know, I have particularly taken up subjects such as significance of impact measurement, relationships with investors, and what impact investing will be from now. I hope you read the article as one of front-line opinions.

Impact measurement/evaluation are not costs but R&D investment

At first, I would like to tell you the reality of impact measurement and impact management through introduction of Life is Tech businesses.

Life is Tech is a start-up working on education reform, with the mission of “developing each one the potential of each of as many junior high and high school students as possible to the maximum.” Since the foundation in 2010, the start-up has provided programming camps for junior high and high school students and recently also endeavored to develop and offer school study materials corresponding to society where programming is made compulsory.

The business, which started from the awareness of the founder and representative Mizuno who was a part-time teacher at a high school, “opportunities to learn creation using IT are scarce!,” has grown steadily since the foundation and the total number of users of its services has reached 200,000 people. Although it has only begun, as the next generation who is doing well in various places is produced from graduates, I feel our efforts have borne fruit gradually. In our steps in these 10 years, impact measurement and support of investors have played a key role.

I regard impact measurement and evaluation as not just costs but R&D (research and development) investment. In these few years, as the donation market and the impact investing market are expanding, business operators have come to be asked for accountability to capital providers. While fundraising and accountability are inseparable, business operators may also feel that they are burdensome and costly operations.

However, in reality, measuring impact and taking opinions of stakeholders centered on beneficiaries seriously is also research and development to generate a next outcome. I think we, business operators, should regard this as not just costs for explanation but positive investment to generate larger impact, and work on it positively.

Let's take a look at Life is Tech as an example. When we newly established a school that students continue to attend in addition to camps held in long holidays, which are our initial business, and when we released an online learning material "Technologia School of Magic" in partnership with Walt Disney Japan, we always had impact understandings and goals set.

Camps of Life is Tech were created meticulously by founders, thinking "Let's offer a programming camp which is as much fun as Disneyland and where children can enjoy and learn!" In this case, learning experience was built in line with the theory that children do not just like something fun but also come to like learning through enjoyable experience.



Children who participated in the programming camp

Children who knew the fun of enjoying creating smartphone apps and games with friends want to learn on a full scale with an aim at service release.

To release a service, time is limited in a camp only. Understand such needs, Life is Tech started a school in 2014. As a result, many children created new services. Some services were ranked in App Store for iOS and there are also many cases in which an award was received in a famous contest.

Next, in response to voices of junior high and high school students who "want to learn" which could not be covered by camps and schools offered mainly in large urban areas, we embarked on development of online learning materials. To enjoy learning even when students live in high and mountainous areas away from large cities, mechanism of online learning with no place and time constraints was indispensable. Yet, there was a challenge that online learning centered on video had a low persistence rate. Then, we decided to create learning materials that enable everyone to learn intently with pleasure and acquire skills without even noticing, in collaboration with Disney.

While the above are one example among many, businesses of Life is Tech are always created by understanding current challenge structure and impact and newly generating lacked value. This is not an idea of "because this market will grow, or because there are such similar services." Of course, market-based ideas are valuable, but to break through the difficult process of realizing a new business, inspiration found from dialogues with beneficiaries and stakeholders is very important.

Regarding profit as a means to generate impact

Impact investors are an encouraging existence to start-ups with a social purpose. Life is Tech raised two billion yen through equity financing under the theme of impact investing in 2020, but has been supported by investors who attach much value to impact, since previous fundraising.

Life is Tech, which did not consider fundraising from venture capital and IPO at the time of foundation in the first place, moved to equity-based fundraising as a result of a dialogue with an investor stating that speed and scale of education reform should be accelerated. That is to say, we set our teeth, thinking that it is necessary to utilize the power of capital and overstep the limits of own funds in order to generate impact. Of course, there are some concerns. If a company founded for junior high and high school students is urged to exit on the strength of voting rights and moves toward a completely different purpose, this is preposterous. So we clearly expressed, in the investment agreement, that we “promote future growth of educational services for junior high and high school students,” though this statement has no binding force.

When impact is emphasized this far, you might think Life is Tech sets a low value on economic profit. But this is not true. Investors are partners to generate impact to Life is Tech, and we are committed to realization of economic returns that they seek. Though shareholder returns are not the top priority, to shareholders who have provided resources to generate impact, we properly give back consideration that they expect or exceeds their expectation. This is our attitude.

In future IPO that we are aiming for, there might be concerns about how far this concept can be realized. In not a few cases, people worry about us, wondering if it is OK to say that. However, looking at the real world, there are many cases where companies with social vision have earned recognition.

For example, Tesla, which is overwhelmingly highly reputed as a company providing next-generation mobility, has published an impact report stating that the purpose of its existence is “to accelerate the world’s transition to sustainable energy.”¹⁰³ Not just giant global companies. Lemonade, which is also known as an investee of Vision Fund, not only publishes a social impact report but also donates insurance money with no receivers for it which the company can take as revenue in nature. This way, the said company has advanced bold efforts¹⁰⁴, and the market still values the company highly. Vital Farms, which went public this past July, states in its listing prospectus that it “may not place utmost priority on shareholder return¹⁰⁵,” but the message is said to have favorably received in the investor roadshow before listing.

In the US, innovation is occurring not only in individual companies but also in infrastructure of the capital market. Now a new trading market promoting long-term investments, called the Long-Term Stock Exchange, has started trial operation. This move is supported by investors and entrepreneurs in Silicon Valley. If we continue to seek profits only, even the earth, our infrastructure, may be jeopardized. In this 21st century, I feel that the movement of emphasizing the balance of profit and impact by both entrepreneurs and investors is irreversible.

103 *Tesla Impact Report 2019 Translated Version*, Tesla Motors Japan LLC (2020) https://www.tesla.com/ja_jp/impact-report/2019

104 *The Lemonade Giveback*, Lemonade Inc <https://www.lemonade.com/giveback>

105 “Coronavirus and capitalism - I see it this way: stronger through emphasizing public interest and going public, Mr. Matt O’Hayer, founder of US-based Vital Farms,” *The Nikkei* (2020) <https://www.nikkei.com/article/DGKKZO66292790W0A111C2EE8000/?fbclid=IwAR0tt93KRqLz34Baf1QPejYHgGUaKq09xn6Mn-CqR9RBORTCdQoHNEwG1Gyk>

Entrepreneurs aiming for social impact

In order to predict the future, it is best to talk with young people who are responsible for the next generation. Life is Tech has started working to support start-up of the youth responsible for the next generation. When I have contact with these young people in that process, I think they have a natural sense to balance economic profit and impact. They do not seek their own economic profit too much, but do not necessarily sacrifice it. And their way of honestly working on issues that they regard as challenges seems encouraging and contains many things to be learned.

At the start of *The B Corp Handbook* published in 2014¹⁰⁶, it is described that “Millennials who have a majority in the world’s labor market seek not only economic value but also social significance in work.” In the 2020s, this move will be accelerated further. I hope we can pave the way for successive generations even if only slightly through impact investing and social IPO that is an extension of it¹⁰⁷, and we would like to continue to grow and expand impact on education.

106 *The B Corp Handbook: How to Use Business as a Force for Good*, Ryan Honeyman(2014), Berrett-Koehler Publishers

107 Also called “Impact IPO.”

Afterword: Editors' postscript

GSG-NAB Japan Secretariat / Social Innovation and Investment Foundation (SIIF)

Report Production Team for The Current State and Issues of Impact Investing in Japan – FY2020 Survey –

Michiru Toda Project Leader, SIIF Impact Officer

As the leader of the writing and research team for this year's report, my primary responsibilities were managing production for the project overall, organizing concepts, developing estimation methods, designing the questionnaire form, fieldwork, compilation and analysis, and writing the text (mainly the summary and Chapter 2). It is my hope that this report can be utilized as the foundation for discussions and practices aimed at the continuing development of impact investing.

Noriko Tadate Assistant Project Leader, SIIF Impact Officer

I was primarily responsible for contributed articles, market estimates, and publication. As a member of the Secretariat, I have attended every meeting of the Study Group on Impact Investment co-sponsored by the Financial Services Agency and GSG-NAB Japan and which is referenced in the main body of the report and the contributed articles. In the meetings, the frank opinions and views of Japan's top leaders in impact investing are shared from their commitment and sense of responsibility to their trepidations and concerns. I have seen how this has enlivened discussion and deepened understanding of impact investing's significance and issues.

Yukina Uchiyama Project Assistant, SIIF Intern

As a member of this year report's writing and research team, I was responsible for helping compile the data and writing a portion of the report. I would like to thank everyone for responding to the questionnaire and contributing articles in the midst of teleworking and the many other changes that have occurred this year due to COVID-19.

Satoshi Oda Advisor, SIIF Knowledge Development Officer

Along with writing Chapter 1 of the report and a pair of its case studies, as the advisor for the project overall, I was primarily involved in identifying issues and developing causal hypotheses for the growth of impact investing and in refining the report's proposals. Even from before this project was launched, I had felt that perhaps the biggest barrier to impact investing growth in Japan was not a lack of money but the relative lack of companies that impact investors would want to invest in. And that perhaps one of the underlying reasons for this was the relative lack of professionals in corporate monetization. This hypothesis was backed up by the survey.

Fumi Sugeno Project Director, SIIF Director of Business Development

With impact investing initiatives expanding in Japan, good quality data accumulation and analysis is becoming more and more important for promoting both quantitative and qualitative improvements. This year, we fundamentally revamped the survey's design. It will be necessary to continue making improvements going forward, but I think we have made major progress toward a survey that paints a multi-faceted picture of impact investing in Japan and analyzes it in deep, meaningful terms. I look forward to hearing your unfiltered opinions on the survey. They will be gratefully used for further improvements.

The Current State and Challenges of Impact Investing in Japan

– FY2020 Survey –

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