

# JAPAN

SOCIAL INVESTMENT LANDSCAPE IN ASIA





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## ABOUT THE REPORT

Now in its second edition, the Social Investment Landscape in Asia serves as a resource for funders and resource providers to assess the opportunities and challenges for social investment in 14 markets in North, South and Southeast Asia. It is designed to be a guide for new social investors and intermediaries looking to enter the Asian market and existing actors exploring partnerships as well as cross-border or cross-sector opportunities.

Each market report provides a holistic overview of the current and emerging trends in the social economy, including:

- Fact File: key demographic, economic and social investment indicators,
- Development Context: progress towards the Sustainable Development Goals and government initiatives to address development gaps,
- The Social Investment Landscape: key trends and notable actors,
- Social Economy Development: an assessment of the current landscape relative to the other 13 Asian markets, and
- Opportunities, challenges and recommendations for social investors and intermediaries.

An online decision-making tool and a detailed mapping of key actors are available at:  
[www.avpn.asia/si-landscape](http://www.avpn.asia/si-landscape).

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## LIST OF ACRONYMS

<b>A</b>	ADB	Asian Development Bank
	AWIF	Asia Women Impact Fund
<b>C</b>	CAF	Charities Aid Foundation
<b>D</b>	DIB	Development Impact Bond
<b>E</b>	ESG	Environmental, Social and Governance
	ETIC.	Entrepreneurial Training for Innovative Communities
<b>G</b>	GDP	Gross Domestic Product
	GPIF	Government Pension Investment Fund
	GSG	Global Steering Group for Impact Investment
<b>H</b>	HNWI	High Net Worth Individual
<b>I</b>	INCF	Innovation Network for Co-creating the Future
<b>J</b>	JFRA	Japan Fundraising Association
	JSIE	Japan Institute for Social Innovation and Entrepreneurship
	JSIF	Japan Sustainable Investment Forum
	JVPF	Japan Venture Philanthropy Fund
<b>N</b>	NPO	Non-Profit Organisation
<b>O</b>	OECD	Organisation for Economic Co-operation and Development
<b>P</b>	PPP	Purchasing Power Parity
	PRI	Principles for Responsible Investment
<b>S</b>	SDG	Sustainable Development Goal
	SE	Social Enterprise
	SIB	Social Impact Bond
	SIIF	Japan Social Impact Investment Foundation
	SIMI	Social Impact Measure Initiative
	SIP	Social Investment Partners
	SMBC	Sumitomo Mitsui Banking Corporation
	SROI	Social Return on Investment
	SVP	Social Venture Partners



# JAPAN

The island nation of Japan has the most developed economy in Asia. Following two decades of economic stagnation, exacerbated by the devastating Tohoku Earthquake in 2011, Abenomics was introduced in 2013 with the aim to revitalise the Japanese economy through monetary easing, structural reforms and fiscal stimulus. This has resulted in a significant wage increase<sup>1</sup> and the lowest unemployment rates since the early 1990s,<sup>2</sup> but consumption and investment have remained weak.<sup>3</sup>

Japan's ageing population and low national fertility rate continue to be its most pressing challenges. This has led to a shrinking labour force and domestic market as well as increased social spending.<sup>4</sup> Meanwhile, income and gender inequality remain stark. Japan's 26% gender pay gap is the third largest in the Organisation for Economic Co-operation and Development (OECD).<sup>5</sup>

The Japanese social economy is one of the most innovative in Asia with a rich tradition of institutional philanthropy, a sizeable impact investing market, an active and creative corporate sector and a vibrant support ecosystem. Japan has emerged as a leader in environmental, social and governance (ESG) investing and an early pioneer in social impact bonds (SIBs) in Asia.

1. G20, 2017, Japan's 2017 Growth Strategy

2. Nikkei Asian Review, 2018, Japan jobless rate falls to 2.4% in August

3. Bertelsmann Stiftung, 2017, Japan Report: Sustainable Governance Indicators 2017

4. Bloomberg, 2018, Japan's fiscal discipline wavers as aging pressure mounts

5. OECD, 2018, Japan: Promoting Inclusive Growth for an Ageing Society





## DEVELOPMENT CONTEXT

Despite its advanced economy, Japan is far from attaining 9 out of 17 Sustainable Development Goals (SDGs) with another 7 only partially achieved. Gender equality, responsible consumption and production, climate action and partnerships are among the areas that need the most work.

In 2016, the SDGs Promotion Headquarters, led by Prime Minister Shinzo Abe, was established to coordinate the implementation of the SDGs. It unveiled the SDG Implementation Guiding Principles, which outline 8 priority areas and 140 measures, in the same year. The 8 priority areas are:<sup>6</sup>

- Empowerment of all people (SDGs 1, 4, 5, 8, 10, 12),
- Achievement of good health and longevity (SDG 3),
- Creating growth markets, revitalisation of rural areas and promoting science, technology and innovation (SDGs 2, 8, 9, 11),
- Sustainable and resilient land use and high-quality infrastructure (SDGs 2, 6, 9, 11),
- Energy conservation, renewable energy, climate change counter-measures and building a recycling-based society (SDGs 7, 12, 13),

## SDG DASHBOARD



Source: sdgindex.org

Note: The "traffic light" colour scheme (green, yellow, orange and red) illustrates how far a country is from achieving a particular goal.

6. Ministry of Foreign Affairs, 2016, Japan – The SDGs Implementation Guiding Principles



Global Competitiveness Rank

2017-2018

9/137

Global Competitiveness Rank (2016-2017) - 8/138

Ease of Doing Business Rank

2019

39/190

Ease of Doing Business Rank (2018) - 34/190

Number of Millionaires

2018

2.8 million

Source: Asian Development Bank (ADB), Charities Aid Foundation (CAF), Credit Suisse, World Bank, World Economic Forum  
Figures are accurate as of March 2019

- Conservation of the environment, including biodiversity, forests and the oceans (SDGs 2, 3, 14, 15),
- A peaceful, safe and secure society (SDG 16), and
- Strengthening the means and frameworks for the implementation of the SDGs (SDG 17).

(USD 4.5 billion) limit on annual increases in social spending.<sup>7</sup> In addition, the government has unveiled a new vision known as Society 5.0, where the Internet of Things, big data, artificial intelligence and robotics will be applied across various industries to further economic development and provide solutions to social and environmental challenges.<sup>8</sup>











In June 2018, the Japanese Cabinet approved a new economic plan that removes the JPY 500 billion



7. Bloomberg, 2018, Japan's new economic plan puts fiscal discipline on back burner

8. The Cabinet Office, Society 5.0

## GOVERNMENT INITIATIVES TO ADDRESS DEVELOPMENT GAPS

IMPACT AREA	SDG GOALS	GAP	GOVERNMENT INITIATIVES
Climate action	  	<ul style="list-style-type: none"> <li>Coal power plants accounted for 32% of Japan's electricity production in 2016.<sup>9</sup></li> <li>The 2011 nuclear meltdown led the government to abandon its goal of reducing coal's share in electricity production to 11% and aim for 26% instead by 2030.<sup>10</sup></li> </ul>	<ul style="list-style-type: none"> <li>The government is aiming for "clean coal" technologies which emit less carbon dioxide to account for 50% of all coal-powered electricity by 2030.<sup>11</sup></li> <li>In 2018, the Cabinet approved the fifth Basic Energy Plan which lays out initiatives for the country to transition to a lower-carbon energy system by 2050.<sup>12</sup></li> <li>Japan aims to cut greenhouse gas emissions by 26% from 2013 levels by 2030.<sup>13</sup></li> </ul>
Gender equality		<ul style="list-style-type: none"> <li>Japan fell 3 places between 2016 and 2017 to 114 out of 144 countries in the Global Gender Gap Report.<sup>14</sup></li> <li>Japan has the third largest gender income gap in the OECD after Estonia and South Korea.<sup>15</sup></li> </ul>	<ul style="list-style-type: none"> <li>As part of the updated Abenomics introduced in 2015, Japan aims to increase women's involvement in the workforce by encouraging flexible employment, reducing overtime work and improving access to high-quality childcare.<sup>16</sup></li> </ul>
Poverty alleviation	 	<ul style="list-style-type: none"> <li>Income of the top 20% households is 6 times higher than that of the bottom 20%, placing Japan in the bottom third of OECD countries in terms of income inequality.<sup>17</sup></li> <li>The percentage of people with incomes lower than 50% of the median household disposable income for those aged 65 and above is 19%, compared to the OECD average of 13%.<sup>18</sup></li> <li>In 2017, 16% of Japanese children lived below the national poverty line.<sup>19</sup></li> </ul>	<ul style="list-style-type: none"> <li>The national social welfare system is governed by 4 key laws, namely Public Assistance Law, Child Welfare Law, the Law on the Welfare of Single Mothers and Widows and the Law on the Welfare of the Elderly.<sup>20</sup></li> <li>The Public Assistance Law stipulates support for low-income households that covers basic living expenses, housing costs, education and skill training.</li> <li>Elderly people aged 65 and above are entitled to public health care services under the Long-term Care Insurance System.<sup>21</sup></li> </ul>
SME development	 	<ul style="list-style-type: none"> <li>Japanese SMEs' productivity is only 45% that of large companies, which is lower than OECD average of 55%.<sup>22</sup></li> <li>While SMEs account for 70% of national employment (compared to the OECD average of 60%), they generate only slightly more than 50% of national value added.<sup>23</sup></li> </ul>	<ul style="list-style-type: none"> <li>The Japanese government supports SMEs primarily through public financing and tax benefits, including credit guarantees, unsecured low-interest loans and tax credits for capital investment and research expenses.<sup>24</sup></li> </ul>
Social protection	 	<ul style="list-style-type: none"> <li>27% of the population is 65 years old and above,<sup>25</sup> and those aged 75 years and above have outnumbered those aged between 65 and 74.<sup>26</sup> The rapidly ageing population has led to escalating medical and social security expenses for the government.<sup>27</sup></li> </ul>	<ul style="list-style-type: none"> <li>The government's efforts to improve fiscal sustainability of the health care system include: expanding the role of local governments in providing community-based health care services, increasing co-payment by users and improving operational efficiency of health care providers.<sup>28</sup></li> </ul>

Source: AVPN analysis

9. Japan Times, 2018, Japan continues to rely on coal-fired plants despite global criticism  
10. Japan Times, 2018, Japan continues to rely on coal-fired plants despite global criticism  
11. Japan Times, 2018, Japan continues to rely on coal-fired plants despite global criticism  
12. Ministry of Economy, Trade and Industry of Japan, 2018, Strategic Energy Plan  
13. Reuters, 2017, Japan says its CO2 emissions inched to 6-year low in last financial year  
14. World Economic Forum, 2017, The Global Gender Gap Report 2017  
15. OECD, April 2018, Japan: Promoting Inclusive Growth for an Ageing Society  
16. East Asia Forum, 2018, Abenomics after five years  
17. OECD, 2018, Japan: Promoting Inclusive Growth for an Ageing Society  
18. OECD, 2018, Japan: Promoting Inclusive Growth for an Ageing Society

19. The Washington Post, 2017, In Japan, single mothers struggle with poverty and 'a culture of shame'  
20. Hayashi, 2010, Social protection in Japan: Current state and challenges  
21. Ministry of Health, Labour and Welfare, 2016, Long-Term Care Insurance System of Japan  
22. OECD, 2017, Improving the performance of Japan's SME sector  
23. OECD, 2017, Improving the performance of Japan's SME sector  
24. Ono, 2014, Japan's Policies for Small and Medium Enterprises  
25. World Bank, Population aged 65 and above (% of total)  
26. Nikkei Asian Review, From elderly to 'superelderly': Japan wrestles with demography  
27. Nippon, 2018, Aging Population Means Social Security Costs Will Balloon to ¥190 Trillion in 2040  
28. OECD, 2018, Japan: Promoting Inclusive Growth for an Ageing Society



# THE SOCIAL INVESTMENT LANDSCAPE

## NEW DEVELOPMENTS IN 2017-2019

- The impact investing market in Japan doubled in size between 2016 and 2017.<sup>29</sup>
- The Nippon Foundation and the Sasakawa Peace Foundation set aside funds to promote impact investing in 2017.
- Full-fledged social impact bonds (SIBs) were launched in 2017 in Hachioji and Kobe city with the aim to mitigate colorectal cancer and chronic kidney disease respectively, and thereby reduce health care costs to the government.<sup>30</sup>
- The amount of environmental, social and governance (ESG) investment in the country more than doubled between 2016 and 2017.
- 2018 saw a record number of green bonds launched by 13 issuers,<sup>31</sup> following the launch of green bond guidelines by the Ministry of Environment in 2017.<sup>32</sup>
- The Dormant Deposit Utilisation Act will take effect in 2019. It allows funds in bank accounts that are inactive for 10 or more years to be used to finance social welfare activities. Disbursement of funds is planned to begin in the second half of 2019.<sup>33</sup>

## Sustainability remains a key challenge facing social purpose organisations

Since the mid-1990s, non-profit organisations' (NPOs) banks have provided low-interest loans to NPOs and individuals engaged in creating social impact from funds donated by citizens. By 2013, around 60% of legally incorporated NPOs implemented revenue generating activities to diversify their financial sources.<sup>34</sup> In 2015, Japan established a credit guarantee scheme for NPOs whereby a local credit guarantee corporation could act as a guarantor for an NPO to obtain loans from a financial institution. Concerns about financial sustainability are considered as the key driving force of the social enterprise (SE) movement in the country.

To date, there are more than 51,000 NPOs<sup>35</sup> and about 205,000 SEs in Japan.<sup>36</sup> Japanese SEs are most active in the areas of regional development and community building, environment, capacity building and empowerment, education, health care, child care and general social welfare. As of 2014, the SE sector was valued at USD 160 billion and employed nearly 6 million workers, indicating the maturity of the sector relative to other Asian countries.<sup>37</sup>

Nonetheless, there are still few models of successful scaled-up NPOs and SEs. The majority of Japanese NPOs are small-scale with an average revenue of about USD 369,000.<sup>38</sup> A 2014 survey revealed that the lack of a long-term vision and direction after achieving their short-term missions led to the premature demise of many SEs, especially those focusing on disaster relief.<sup>39</sup> They also need support to communicate their social values more effectively and compete with for-profit enterprises operating in the same markets such as elderly care.<sup>40</sup>

## Institutional philanthropy is a well-established culture

Japan has one of the most mature institutional philanthropy cultures in Asia with 77% of foundations being professionally managed.<sup>41</sup> While there is no consensus on the number of grant-making foundations in Japan, estimates from the Japan Foundation Centre put this at about 900 with total assets of approximately JPY 4.9 trillion (USD 44.8 billion) as of 2017.<sup>42</sup> The 3 largest foundations by assets are the Nippon Foundation, the Uehara Memorial Foundation and the Sasakawa Peace Foundation.<sup>43</sup> Science and technology make up a sizeable portion of total giving, followed by culture, health care, social welfare and scholarships.<sup>44</sup>

29. Responsible Investor, 2018, Impact investment is blossoming in Japan

30. Japan Sustainable Investment Forum, 2018, Third Sustainable Investment Survey in Japan

31. Global Capital Asia, 2018, SRI bonds present Japan with a green mountain to climb

32. Ministry of Environment, 2017, Green Bond Guidelines, 2017

33. Nippon, 2017, Japan Moves to Use Dormant Bank Accounts for Socially Beneficial Activities

34. Nakagawa and Laratta, 2015, Social Enterprise in Japan

35. Japan NPO Centre, 2018, Legal Framework

36. Cabinet Office, 2015, A Report on the Aggregated Activity Size of Social Enterprises in Japan

37. Cabinet Office, 2015, A Report on the Aggregated Activity Size of Social Enterprises in Japan

38. Nakagawa and Laratta, 2015, Social Enterprise in Japan

39. Sato, 2015, The challenges of sustaining social entrepreneurship: Four years after the Great East Japan Earthquake

40. Harada, 2014, Comment at the "Sustainable Enterprise Strategies" Symposium in Tokyo, Japan

41. UBS and INSEAD, 2011, Family philanthropy in Asia

42. Japan Foundation Centre, 2018, Current status of Japan's grant-making foundations

43. Japan Foundation Centre, 2016, Assets of the top 100 foundations

44. Japan Foundation Centre, Size of Assets and Grant Programs

The size of individual giving was estimated at JPY 776 billion (USD 7.2 billion) in 2016 from about 46 million donors, or 45% of the population, according to the Japan Fundraising Association (JFRA).<sup>45</sup> Grants from foundations increased steadily from JPY 66 billion (USD 614 million) in 2011 to JPY 101 billion (USD 939 million) in 2015.<sup>46</sup>

Prominent Japanese philanthropists include:

- Kazuo Inamori, founder of Kyocera,
- Soichiro Fukutake, chairman of Benesse Holdings, and
- Masayoshi Son, founder and CEO of Softbank.

These philanthropists have contributed significant amounts in recent years. For instance, Kazuo Inamori donated USD 71 million in Kyocera shares to his alma mater Kagoshima University in 2018.<sup>47</sup> His Inamori Foundation also doubled the quantum of its prize for 3 laureates to USD 930,000 for their achievements in advanced technology, basic science and philosophy and arts.<sup>48</sup>

Despite Japan's large number of millionaires, high net worth individuals' (HNWIs) wealth for social impact has not been fully harnessed due to low involvement. Strategic and informed social investment is still dominated by a few leading players such as the Nippon Foundation and the Sasakawa Peace Foundation.

## Strategic social investment began with venture philanthropy

Japan is among the earliest adopters of strategic social investment in Asia. Social Venture Partners (SVP) Tokyo, an affiliate of SVP in the US, pioneered the venture philanthropy model in Japan in 2003.<sup>49</sup> Today it provides annual funding of up to JPY 1 million (USD 9,300) to 3 to 5 social ventures in addition to management support.<sup>50</sup> These ventures range from social start-ups to organisations with more than 15 years of operation. Its focus areas include disadvantaged women and children, health care, elderly care and education.<sup>51</sup> SVP Tokyo emphasises collaboration with its investees and focuses on helping them overcome management challenges throughout the investment duration.

Another champion of venture philanthropy is Social Investment Partners (SIP) founded by a group of private equity professionals in 2012. SIP launched the Japan Venture Philanthropy Fund (JVPF) as a joint venture with the Nippon Foundation in 2013 with an initial investment of USD 1 million.<sup>52</sup> JVPF provides grants, convertible debt and equity to both NPOs and SEs.

Emphasis has grown in the area of impact measurement, a critical aspect of strategic social investment, following the 2012 launch of the Social Return on Investment (SROI) Network Japan, an affiliate of the UK-based Social Value International that provides impact measurement training.<sup>53</sup> In 2016, the Nippon Foundation founded the Social Impact Measure Initiative (SIMI), a multi-sectoral platform with about 150 members, to promote best practices in impact assessment.<sup>54</sup>

## Japan's impact investing market doubled in size in 2017

The impact investing market in Japan doubled in size in 2017 with a volume of USD 718 million compared to USD 337 million in 2016.<sup>55</sup> This can be attributed in part to increased interest from mainstream financial institutions. For instance, in 2017, Shinsei Corporate Investment, the private equity arm of Shinsei Bank, launched the USD 5 million Childcare Support Fund to invest in early- and late-stage SEs engaging in childcare, education and household support.<sup>56</sup> Other notable impact funds include the Yui investment trust managed by Kamakura Investment Management Co., Ltd, the Big Impact Fund by BlackRock Japan and BlueOrchard.

Meanwhile, large foundations including the Nippon Foundation and Sasakawa Peace Foundation have taken significant steps to engage in impact investment:

- The Nippon Foundation set up the Japan Social Impact Investment Foundation (SIIF) in 2017 as a dedicated entity focusing on building the impact investing market.<sup>57</sup> SIIF has successfully engaged Sumitomo Mitsui Banking Corporation (SMBC) and some of its HNW clients to invest in the Kobe Social Impact Bond (SIB),<sup>58</sup> thereby contributing to mainstreaming impact investing in Japan.

45. JFRA, 2017, Giving Trend in Japan

46. JFRA, 2017, Giving Trend in Japan

47. Forbes, 2018, Asia's 2018 Heroes of Philanthropy: Putting Wealth to a Good Cause

48. Forbes, 2018, Asia's 2018 Heroes of Philanthropy: Putting Wealth to a Good Cause

49. Ito, 2014, New role for philanthropy in post-earthquake Japan

50. SVP Tokyo, Investment/Collaboration

51. SVP Tokyo, Investment List

52. Ito, 2014, New role for philanthropy in post-earthquake Japan

53. Ito, 2017, Creating Systemic Change

54. AVPN, 2018, Leveraging the full spectrum of philanthropic capital towards impact – Case studies from Asia Pacific and the US

55. Responsible Investor, 2018, Impact investment is blossoming in Japan

56. Medium, 2017, Shinsei Bank leading Impact Investing

57. AVPN, 2018, Leveraging the full spectrum of philanthropic capital towards impact – Case studies from Asia Pacific and the US

58. Reuters, 2017, Japan's 'social impact bond' gets first batch of investors





### Japan Social Impact Investment Foundation (SIIF): Building the impact investment market in Japan

The Nippon Foundation has been promoting impact investment in Japan since 2013. In 2017, it established SIIF as an independent entity to further accelerate the development of impact investing in the country. SIIF's mission is to unlock private capital for impact investing with a 3-pronged strategy:<sup>59</sup>

- Funding: providing risk capital including guarantees and first-loss catalytic investments to impact funds and innovative models such as SIBs,
- Hub: supporting intermediaries with a focus on developing innovative impact investing products,
- Think-tank: producing thought leadership, promoting impact assessment best practices and engaging in policy advocacy.

- In 2017, the Sasakawa Peace Foundation carved out USD 100 million from its endowment to set up the Asia Women Impact Fund (AWIF) focusing on women's empowerment in Southeast Asia.<sup>60</sup> AWIF makes direct investments into funds that aim to improve gender equality, as well as provides concessionary investments, technical assistance and mentorship to early-stage women entrepreneurs.

## Corporates are key drivers of social investment

The corporate sector has been a key driver of social investment in Japan. According to the JFRA, corporate giving exceeded individual giving by a small margin in 2016,<sup>61</sup> totalling JPY 791 billion (USD 7.3 billion) from 420,000 donors. Many corporations have gone beyond corporate philanthropy to become early adopters of social investment. For example, Panasonic and NEC started providing incubation support to social purpose organisations (SPOs) in 2001 and 2002, respectively.<sup>62</sup> In recent years, there has been a growing interest among Japanese corporates to invest in technology-based social innovations. For instance:

- Fujitsu, an information technology corporation, launched Fujitsu Accelerator in 2017 to support early- and growth-stage enterprises that provide technological solutions to social issues.<sup>63</sup>
- Rakuten, an e-commerce and digital communications company, collaborated with SVP Tokyo to set up Rakuten Social Accelerator in 2018.<sup>64</sup> The programme provides funding and business support for social entrepreneurs that use technology.
- Mitsubishi Research Institute, Inc., the research and development arm of the Mitsubishi Group, established the Innovation Network for Co-creating the Future (INCF), a platform for corporates, the government, academia and entrepreneurs to advance technologies for social good. INCF inaugurated the Business Acceleration Programme in 2018 to foster social innovations in 6 areas, namely: education, health care, water and food, disaster prevention, pollution-free transportation and energy and environment.<sup>65</sup>

59. AVPN, 2018, Leveraging the full spectrum of philanthropic capital towards impact: Case studies from Asia Pacific and the US

60. AWIF, About us

61. JFRA, 2017, Giving Trend in Japan

62. Ito, 2014, New role for philanthropy in post-earthquake Japan

63. Fujitsu, Fujitsu Accelerator

64. Rakuten, Rakuten Social Accelerator

65. INCF, Business Acceleration Programme 2018

## ESG investing is moving closer to the mainstream

In 2014, Japan introduced the stewardship code for institutional investors which lays down ESG guidelines and principles for a constructive engagement of asset managers with publicly listed companies. By mid-2015, more than 180 investors endorsed this code,<sup>66</sup> signalling the rapid adoption of ESG investing in the country.

In 2015, Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund with about USD 1.5 trillion under management, became the signatory of the United Nations Principles for Responsible Investment (PRI).<sup>67</sup> Following this, the amount of ESG investments in the country more than doubled from JPY 56 trillion (USD 521 billion) in 2016 to JPY 134 trillion (USD 1.2 trillion) in 2017, according to the Japan Sustainable Investment Forum (JSIF).<sup>68</sup> In 2017, GPIF announced it would allocate 3% of its equity portfolio, or USD 8.9 billion, to 3 ESG indices,<sup>69</sup> indicating ESG investing is moving closer to the mainstream.

Climate finance has grown rapidly since the first green bond was issued by the Development Bank of Japan in 2014.<sup>70</sup> The number of green bonds issued in Japan increased manifold in 2 years, from 2 in 2015 to 11 in 2017.<sup>71</sup> In 2017, the Ministry of Environment

unveiled the green bond guidelines in recognition of the importance to promote green finance.<sup>72</sup> 2018 saw a record number of green bonds launched by 13 issuers.<sup>73</sup> The Green Finance Network Japan was founded in the same year with the mission to drive reforms of the financial system towards ESG principles.<sup>74</sup>

## Social impact bonds attract institutional investors

Two health-related SIBs were launched in Japan in 2017, one in Hachioji and the other in Kobe city, following 3 small-scale pilots in the cities of Yokosuka, Fukuoka and Amagasaki in 2015 and 2016. Both SIBs engage private companies as service providers and SIIF as one of the investors. The Kobe SIB is larger in scale than the Hachioji SIB with an upfront investment of about USD 285,000 compared to the latter's USD 81,000. Investors in the Kobe SIB can get back the original investment plus a financial return totalling up to USD 313,000 compared to Hachioji SIB's USD 89,000, if the predefined outcomes are achieved. K-three Inc., a social investment consultancy, is the designer and facilitator of the Hachioji SIB, while SIIF plays this role in the Kobe SIB. The outcomes of the Kobe SIB will be assessed by the Institute of Future Engineering while there is no independent outcome evaluator for the Hachioji SIB. Details of these SIBs are provided in the table that follows:



66. IPE, 2015, ESG investment: A Japanese carrot and a stick

67. Financial Times, 2018, Emerging markets: change in the air for responsible investment

68. Japan Sustainable Investment Forum, 2018, Third Sustainable Investment Survey in Japan

69. Financial Times, 2018, Emerging markets: change in the air for responsible investment

70. Climate Bonds Initiative, 2014, Development Bank of Japan issues green property bond

71. Global Capital Asia, 2018, SRI bonds present Japan with a green mountain to climb

72. Ministry of Environment, 2017, Green Bond Guidelines, 2017

73. Global Capital Asia, 2018, SRI bonds present Japan with a green mountain to climb

74. Climate Bonds Initiative, 2018, Tokyo: Launch of Green Finance Network Japan: A new high-level green initiative



The Hachioji SIB		The Kobe SIB
<b>Launch date</b>	May 2017	July 2017
<b>Duration</b>	2 years	3 years
<b>Impact goal</b>	To mitigate the effects of colorectal cancer and reduce health care costs	To extend life expectancy and improve quality of life for 100 high-risk patients with stage 3-4 chronic kidney disease and reduce health care costs.
<b>Partners:</b>		
<b>Outcome payer</b>	The Hachioji city government	The Kobe city government
<b>Investors</b>	DigiSearch and Advertising Inc. and SIIF	SMBC, SIIF and HNW investors brought in by SMBC
<b>Designer and facilitator</b>	K-three Inc.	SIIF
<b>Service provider</b>	Cancer Scan	DPP Health Partners
<b>Outcome evaluator</b>	Not available	Institute of Future Engineering
<b>Key financials:</b>		
<b>Upfront investment</b>	JPY 8.8 million (USD 81,000)	JPY 31 million (USD 285,000)
<b>Maximum outcome payment to investors (if predetermined outcomes are achieved)</b>	JPY 9.7 million (USD 89,000)	JPY 34 million (USD 313,000)

While results are not yet available, the participation of institutional investors such as SMBC indicates the tremendous potential of SIBs in unlocking private capital towards evidence-based impact. However, SIBs in Japan are relatively small in size compared to those in Western economies such as the US and UK. Furthermore, the potential of development impact bonds (DIBs), where social investors are the outcome payers, has not been explored.

## Social economy policies have focused on unlocking investment

While SEs are not legally recognised and formally supported, the Japanese central and local governments have put in place initiatives to unlock social investment:

- In 2014, the government established the Japan National Advisory Board under the Global Steering Group for Impact Investment (GSG), a global organisation with the mission to lead the

impact investing movement worldwide towards integrating measurable impact into every investment and business decision.<sup>75</sup>

- Local governments in the cities of Yokosuka, Fukuoka and Amagasaki supported 3 pilot SIB projects led and funded by the Nippon Foundation in 2015 and 2016<sup>76</sup>. As described above, these pilots paved the way for 2 full-fledged SIBs in Hachioji and Kobe city supported by the Ministry of Health, Labour and Welfare.<sup>77</sup>
- The government passed the Dormant Deposit Utilisation Act in December 2016, which will take effect in 2019. It allows funds in bank accounts that are inactive for 10 or more years to be used to finance social welfare activities. These accounts are estimated to grow by about JPY 100 billion (USD 920 million) annually.<sup>78</sup> Disbursement of funds has been planned to begin in the second half of 2019.<sup>79</sup>

75. The GSG Japan National Advisory Board, 2016, Current State of Social Impact Investment in Japan

76. Nippon Foundation, 2015, Progress report on Japan's first 3 pilot projects











77. AVPN, 2018, Pay-for-success models in Asia-Pacific: The early movers

78. Nippon, 2017, Japan Moves to Use Dormant Bank Accounts for Socially Beneficial Activities

79. Nippon, 2017, Japan Moves to Use Dormant Bank Accounts for Socially Beneficial Activities

## SOCIAL ECONOMY DEVELOPMENT

The social economy in Japan is one of the most mature in Asia driven by professionally managed foundations, increased interest from mainstream investors and innovative investment models

CATEGORY	FACTOR	RATING	DESCRIPTION
SPOs	Presence, size and maturity		<ul style="list-style-type: none"> <li>There are more than 51,000 NPOs<sup>80</sup> and about 205,000 SEs in Japan.<sup>81</sup></li> <li>As of 2014, the SE sector was valued at USD 160 billion and employed nearly 6 million workers,<sup>82</sup> indicating the maturity of the sector.</li> </ul>
	SEs' sectoral presence		<ul style="list-style-type: none"> <li>Japanese SEs are active in various areas such as regional development and community building, environment, capacity building and empowerment, education, health care, child care and general social welfare.</li> </ul>
Investors	Philanthropic contributions		<ul style="list-style-type: none"> <li>Japan has one of the most mature institutional philanthropy cultures in Asia with 77% of its foundations being professionally managed.<sup>83</sup></li> </ul>
	Managed funds		<ul style="list-style-type: none"> <li>The impact investing market doubled in size in 2017 compared to 2016.<sup>84</sup> This can be attributed in part to increased interest from mainstream financial institutions and foundations.</li> </ul>
	Corporate sector		<ul style="list-style-type: none"> <li>Many corporations are early adopters of social investment such as Panasonic and NEC.</li> <li>There has been a growing interest among corporates to foster technologies for social good. Examples include Fujitsu, Rakuten and Mitsubishi.</li> </ul>
Enablers and Intermediaries	Policy environment		<ul style="list-style-type: none"> <li>The establishment of the Japan National Advisory Board under the GSG, SIBs and the Dormant Account Utilisation Act are some of the key policies to unlock social investment.</li> <li>However, SEs are not legally recognised and formally supported.</li> </ul>
	Incubators, accelerators and capacity builders		<ul style="list-style-type: none"> <li>ETIC., KIBOW, Impact Hub Tokyo, Social Innovation Japan, Cross Fields and the Japan Institute for Social Innovation and Entrepreneurship (JSIE) are some of the notable social incubators, accelerators and capacity builders in Japan.</li> <li>Many corporations provide incubation and acceleration support to SEs such as Panasonic, NEC, Fujitsu, Rakuten and Mitsubishi.</li> </ul>
	Networks and platforms		<ul style="list-style-type: none"> <li>AVPN, Green Finance Network Japan, JSIF and SIMI are some of the prominent multi-sectoral networks and platforms in Japan.</li> </ul>
	Knowledge and research		<ul style="list-style-type: none"> <li>The Japan Foundation Centre, the Japan NPO Centre, Cabinet Office, the GSG Japan National Advisory Board, JSIF, JFRA, Nippon Foundation, Sasakawa Peace Foundation, UBS and INSEAD and Keio University have published research on the Japanese social economy. However, English publications are sparse compared to the level of activity.</li> <li>Keio University, Meiji University and Kobe University offer social innovation courses. Tama University set up a social investment think-tank in 2018.</li> </ul>
	Partnerships		<ul style="list-style-type: none"> <li>Multi-sectoral partnerships have proliferated with examples such as NEC and ETIC.; Seibu Shinkin Bank, Nippon Foundation and ETIC.; Rakuten and SVP Tokyo; the Green Finance Network Japan; and JSIF and the 2 SIBs in Hachioji and Kobe city.</li> </ul>

80. Japan NPO Centre, 2018, Legal Framework

81. Cabinet Office, 2015, A Report on the Aggregated Activity Size of Social Enterprises in Japan

82. Cabinet Office, 2015, A Report on the Aggregated Activity Size of Social Enterprises in Japan

83. UBS and INSEAD, 2011, Family philanthropy in Asia

84. Responsible Investor, 2018, Impact investment is blossoming in Japan



## OPPORTUNITIES

- With a sizeable SE sector valued at USD 160 billion as of 2014, the Japanese social economy presents abundant opportunities for social investment. The country's tradition of technological advancement, high-quality talent and good governance provide a favourable environment for social innovations.
- The Dormant Account Utilisation Act will unlock more funds for social investment when it takes effect in 2019. Mainstream investors' increased interest in social investment may result in a significant source of impact capital for SPOs in the country.
- Given corporates' active involvement in social investment, there are many opportunities for multi-sectoral partnerships between foundations, impact funds, intermediaries and corporates to build up the capability of SPOs and enable them to become investment ready and scale.
- The launch of the Hachioji and Kobe SIBs may encourage other stakeholders to partner in innovative social investment models, especially from the public sector and mainstream financial institutions.
- The movement towards effective impact assessment as seen in the establishment of SIMI, as well as the engagement of an independent outcome evaluator in the Kobe SIB, may attract more investors to evidence-based impact.

## CHALLENGES

- There are still few models of successful scaled-up SPOs to inspire the social investment sector.
- While the majority of Japanese foundations are professionally managed, strategic and informed social investment is still dominated by a few leading players.
- Despite Japan's large number of millionaires, HNWI wealth for social impact has not been fully harnessed due to low involvement.
- The lack of English research studies on the Japanese social economy is a significant barrier for social investors interested in the country.

- SIBs in Japan are relatively small in size compared to those in Western economies such as the US and UK. Furthermore, the potential of DIBs, where social investors are the outcome payers, has not been explored.

## RECOMMENDATIONS

- **Development gaps:**
  - Gender equality, child poverty, elderly care and environmental sustainability are impact areas that could significantly benefit from increased social investment.
- **Social investment:**
  - While impact capital is ample, especially with the dormant funds and increased participation from mainstream investors, little has been deployed to build the capacity for SPOs. Social investors should channel a portion of their portfolio to provide capacity building support to SPOs or fund intermediaries.
  - Corporates could focus more on providing technical assistance and mentorship to SEs given their business expertise and networks.
  - There is a need to explore DIBs as well as to scale up SIBs to create impact at the system level.
  - Partnerships between foundations and financial institutions and between corporates and intermediaries should be replicated to increase funding and capacity building support for early-stage SEs.
  - Impact funds could partner with corporates and foundations to provide more non-financial support and enhance investment readiness among early-stage SEs.
  - Foundations including the Nippon Foundation and the Sasakawa Peace Foundation have forayed into impact investing as a way to further their missions. Other foundations could consider doing the same to provide the right investment for SEs at different stages and allow them to scale.
  - There is a need to translate Japanese social economy research into English for increased

accessibility, as well as to produce more English publications, which could enhance cross-border social investment into the country.

- **Ecosystem support:**

- A concrete legal structure should be put in place to recognise and support SEs, which can in turn lead to better public understanding of and more private sector support for the sector.
- Funds from dormant accounts should be partially channelled to intermediaries to ensure their sustainability and help build the capacity for SPOs.
- Intermediaries should initiate more collaborations with corporates, foundations and impact funds to provide investment readiness support for SEs.
- SIMI could lead an effort to create a national impact measurement standard, which could go a long way in increasing the flows of social investment into evidence-based impact.

- AVPN, 2018, Pay-for-Success Models in Asia-Pacific: The Early Movers
- The GSG Japan National Advisory Board, 2016, Current State of Social Impact Investment in Japan

*“Most Japanese investors are new to the concept of impact investing. There is a high need for role models in investing. The current ecosystem pushes very little, and few support medium to high risk investments. There is a barrier to the entry of new ideas. SEs are young and need capacity building and support to grow.”*

*Natasha Shih and Karthik Varada,  
Sasakawa Peace Foundation*

## RECOMMENDED READING

- AVPN, 2018, Leveraging the full spectrum of philanthropic capital towards impact – Case studies from Asia Pacific and the US





## Appendix: Legislative Framework for SPOs in Japan

Japan's legislative framework for SPOs consists of 4 key laws, namely the Law to Promote Specified Non-profit Activities (also referred to as the Non-Profit Organisation Law or NPO Law), the Association and Foundation Law, the Law on Recognising Organisations as Public Interest and the Law to Consolidate Relevant Laws. Accordingly, SPOs can legally register as non-profit organisations, associations, foundations or public interest organisations. There is no specific legal structure for SEs and therefore, SEs may register as non-profit or for-profit entities.

NON-PROFIT STRUCTURES <sup>85</sup>	
Non-profit organisation (NPO)	NPOs are charity entities incorporated pursuant to the NPO Law. Their purpose is limited to certain social action programmes listed in the law. In order to incorporate an NPO, authorisation by the relevant local government is required. An NPO cannot distribute profit to its members.
Association	Associations must be established by 2 or more members. There are no restrictions on their purpose or activities, nor are there any authorisation requirements. An association cannot distribute profit to its members.
Foundation	Unlike associations, there are no requirements on the minimum number of members for foundations to be established.
Public interest organisation	Public interest organisations are governed under the Law on Recognising Organisations as Public Interest. Its operation must focus mainly on the pursuit of public benefits. It must be authorised by the Committee for Public Interest Organizations, which decides whether the organisation meets the legal requirements. Donations to a public interest organisation are tax deductible.
FOR-PROFIT STRUCTURES <sup>86</sup>	
Partnership (NK)	Partnerships must have at least 2 partners. They are formed by a contractual agreement whereby the partners agree to contribute money, services or other valuables. Each partner is personally responsible for the partnership's assets and liabilities.
Limited liability partnership	Limited liability partnerships may be formed for any purpose and each partner's liability is limited to his/her equity contribution. They are not taxed at the corporate level, but partners' profits are taxed.
Limited liability company (GK)	In limited liability companies, the shareholders' liabilities are limited to their equity contribution. They are taxed at the corporate level.
Joint stock company (KK)	Joint stock companies must have a director or a board of directors. At least 1 director must be a resident of Japan. A general meeting must be held at least once a year.

For-profit entities can accept funding in the form of donations/grants, debt and equity. However, they cannot enjoy tax benefits in respect of donations/grants.<sup>87</sup>

- The proportion of profit paid out as dividends to investors and shareholders is to be 50% or less.
- The income from business needs to be 50% or more of the total income.

Despite the lack of a legal definition, the Cabinet Office defines SEs in a 2015 report as follows:<sup>88</sup>

- The main objective of the business is the resolution of social issues.
- Profits are largely to be reinvested into the business and not paid out as investment or dividends to shareholders.

85. AVPN, 2014, Getting started in venture philanthropy in Asia – Legal framework profile for Japan

86. AVPN, 2014, Getting started in venture philanthropy in Asia – Legal framework profile for Japan

87. AVPN, 2014, Getting started in venture philanthropy in Asia – Legal framework profile for Japan

88. Cabinet Office, 2015, A Report on the Aggregated Activity Size of Social Enterprises in Japan

## METHODOLOGY

### HOW WE CURATE INSIGHTS IN THIS REPORT

The research team used a combination of primary and secondary research methods and a particular process to curate information into useful insights:

- We sketched the landscape by compiling relevant standard indicators, indices and rankings from secondary sources.
- We plotted the trends and actors from secondary literature and AVPN's various member engagement activities.
- We expanded on this understanding by interviewing key actors, ranging from foundations to impact investors, intermediaries, and social entrepreneurs, to understand their investment/ implementation philosophies, challenges and barriers they face, and key recommendations they have for anyone looking to invest in or support the social economy or specific causes therein.
- We corroborated the information we received from the interviews with secondary data to discern common patterns, contexts and evolutions which have led to certain trends.
- We computed the ratings for the social economy based on secondary data and insights from interviews.
- Once we had completed the landscape, we revisited the social economy ratings to perform a relative regional comparison and adjust the ratings accordingly.
- We also vetted the completed landscape with experts as listed in the acknowledgement.
- Overall, we aimed to bring the data and analysis together to provide practical recommendations for social investors and intermediaries across the spectrum.

Throughout the profile, we have attempted to map out recent developments, interesting partnerships and key actors that could form a basis for future collaborations. We have also provided detailed citations with embedded links to original sources and a list of recommended readings for further reference.





## Definitions

While there might be different interpretations of the following key terms across Asia, our working definitions are as follows:

Supply of social investment	
<b>Corporate</b>	A company that invests directly in social impact through CSR or through establishing a corporate foundation
<b>Development finance institution</b>	A financial institution that provides development aid and/or capital towards private sector development in developing countries
<b>Family office</b>	A wealth management advisory or establishment for high net worth and ultra high net worth individuals
<b>Foundation/Trust</b>	A not-for-profit organisation that funds social and/or environmental causes
<b>Impact fund</b>	A fund that invests with the intention to generate positive, measurable social and environmental impact alongside a financial return
Demand for social investment	
<b>Impact business</b>	A company that focuses on creating positive outcomes for specific stakeholders of the business including employees, communities, customers, and the environment
<b>Non-profit organisation</b>	An entity dedicated to furthering a particular social or environmental cause (also referred to as non-governmental organisations)
<b>Social enterprise</b>	A company with a social mission that is aspiring to or able to generate revenues out of its products and services
<b>Social purpose organisation</b>	An umbrella term for non-profit organisations, social enterprises and impact businesses
Intermediaries	
<b>Incubators, accelerators and capacity builders</b>	Organisations that provide facilities, expertise and other forms of non-monetary support to entrepreneurs
<b>Networks and platforms</b>	Online and offline locations that convene stakeholders
<b>Research and knowledge</b>	Academic institutions and organisations that publish on the social economy

## Mapping and Rating Methodologies

### Government initiatives to address development gaps

For this section, we referenced Toniic's SDG Impact Theme Framework to map government initiatives to the different impact areas and relevant SDGs. The goal of the framework is to allow social investors to align their investments with the SDGs and thereby find greater alignment and synergy with the government and other key stakeholders.

For government initiatives, we analysed the latest national plans, policies and programmes to determine

national priorities for sustainable and inclusive development. We also examined SDG sub-indicators in order to pick out the worst-performing indicators, gaps in these areas and initiatives that have put in place to solve the problem.













### Social economy development

To overcome the issue of limited data availability, we adopt the Harvey ball methodology to assess the stages of development for key factors constituting a social economy including SPOs (demand for social investment), investors (supply of social investment), intermediaries (organisations that support investors and/or SPOs) and enablers, including the policy

















environment and partnerships. A simple 1- 4 scoring method is used to uniformly quantify the status of each factor so that relative comparisons can be made.













Each factor has a total of 4 scenarios depicted by the 4 Harvey balls equivalent to ratings from 1 to 4.

These scenarios have been delineated based on the typical progression of the different factors in the Asian context. The framework has been adapted from BCG's SE maturity framework, Monitor Institute's definitions, Acumen's early-stage impact investing, Toniic's framework, and AVPN's analysis.

CATEGORY	FACTOR	RATING
SPOs	Presence, size and maturity	 Low presence of non-profits organisations and SEs (relative to the other 13 Asian markets). The majority are in early stages.
		 Average presence of non-profit organisations and SEs (relative to the other 13 Asian markets). The majority are relatively established and creating discernible social impact.
		 High presence of non-profit organisations and SEs (relative to the other 13 Asian markets). Many are financially sustainable, with evidence of raising equity investments.
		 High presence of non-profit organisations and SEs (relative to the other 13 Asian markets). Many have reached regional or national scale, with a relatively high number of equity investments made.
	SEs' sectoral presence	 The majority of SEs focus on job creation and basic social services such as education and health care
		 The above plus presence of SEs in proven models such as microfinance and energy
		 Diverse SE operations in an array social and environmental issues
		 A holistic range of products and services targeting both the bottom of the pyramid and the environment in urban and rural areas
Investors	Philanthropic contributions	 Evidence of philanthropic contributions and/or religious giving
		 Evidence of sustained, well-managed institutional philanthropy
		 Evidence of informed and collaborative philanthropy to multiple causes with diverse tools
		 Informed and collaborative philanthropy with diverse tools and innovative approaches



CATEGORY	FACTOR	RATING
Investors	Managed funds	 Presence of social investment with no clear classification of investors
		 Presence of managed funds with evidence of investments
		 Presence of international and local funds with diverse financing instruments
		 Presence of international and local funds with diverse financing instruments, co-investment and/or innovative approaches
	Corporate sector	 Corporate donations, volunteerism, compliance-based CSR and few examples of strategic CSR
		 Evidence of strategic and sustained CSR across multiple causes
		 Evidence of strategic and sustained CSR, support for SEs, sustainability reporting
		 Evidence of shared value, support for SEs, sustainability reporting with innovative approaches/partnerships
Intermediaries and Enablers	Policy environment	 Neutral policy environment with no recognition or targeted support for the social economy
		 Friendly policy environment with basic recognition and support for the social economy
		 Enabling policy environment with multiple incentives to develop the social economy
		 Strong policy support to build an effective social economy in the form of legislation, incentives, incubation and acceleration
	Incubators, accelerators and capacity builders	 Presence of social incubators, accelerators and capacity builders for SPOs offering co-working spaces and basic coaching
		 Presence of social incubators, accelerators and capacity builders for SPOs offering access to expertise
		 High presence of social accelerators and capacity builders for SPOs with sustained access to expertise, networks and seed funding
		 The above plus ecosystem support through partnerships with other stakeholders

CATEGORY	FACTOR	RATING
<b>Intermediaries and Enablers</b>	Networks and platforms	 Evidence of convenings of social economy stakeholders
		 Presence of formal networks and/or platforms dedicated to social economy stakeholders
		 The above plus presence of cross-sectoral platforms
		 High presence of formal networks and platforms that convene multiple sectors plus a variety of events to raise public awareness of the social economy
	Knowledge and research	 Availability of landscape mapping
		 Regular landscape mapping with some quantitative data
		 The above plus social economy research across a variety of topics and availability of courses on social entrepreneurship
		 Regular landscape mapping, social economy research across a variety of topics and availability of formal social entrepreneurship programmes
	Partnerships	 Evidence of partnerships between two entities
		 Presence of multi-stakeholder partnerships and collaborations between the government and social economy actors
		 The above plus presence of a pooled fund and/or co-investment
		 The above plus presence of innovative partnerships such as collective impact and impact bonds





## ABOUT AVPN

AVPN is a unique funders' network based in Singapore committed to building a vibrant and high impact social investment community across Asia. As an advocate, capacity builder, and platform that cuts across private, public and social sectors, AVPN embraces all types of engagement to improve the effectiveness of members across the Asia Pacific region.

## OUR MISSION

The core mission of AVPN is to increase the flow of financial, human and intellectual capital to the social sector by connecting and empowering key stakeholders from funders to the social purpose organizations they support.

With over 500 members across 32 countries, AVPN is catalysing the movement towards a more strategic, collaborative and outcome focused approach to social investing, ensuring that resources are deployed as effectively as possible to address key social challenges facing Asia today and in the future.

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AVPN is a unique Pan-Asian funders' network catalysing the movement toward a more strategic and collaborative approach to social investment to address key social challenges facing Asia today and in the future.

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