The Current State of Impact Investing in Japan

2018

March 31, 2019

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

Executive Summary

The Japanese impact investing sector is a product of its unprecedented super aging demography, its advanced economy led by powerful corporates, and its nonprofit sector with strong expertise in disaster relief, elderly care, and healthcare. The key features of the demand and supply sides of the impact investing sector include the following:

Demand side

Japanese society faces major structural issues such as the world's fastest ageing demographic, poverty among children, and shrinking regional economies. The government-led resource reallocation model from the post-war economic growth period has its limit in addressing these social challenges. Developing a new flow of private money to social challenges is critical.

Healthy growth in the number of nonprofit organizations especially in the period immediately following the devastating earthquake and tsunami in eastern Japan in 2011.

Emergence of social enterprises in the recent past, leading to approximately 200,000 ventures in number and employing 5.8 million people. Given the lack of a legal organization, many social enterprises operate as for-profit entities.

Expansion of corporate engagement in social issues, particularly with the spreading of concepts such as creating shared value (CSV) and base of the pyramid (BOP).

Supply side

Substantial role of crowdfunding platforms to mobilize individual donations and investments for impact investing projects.

Involvement of mainstream financial institutions, notably the largest pension fund in the world, Japan's Government Pension Investment Fund (GPIF), which has made a commitment to ESG investing.

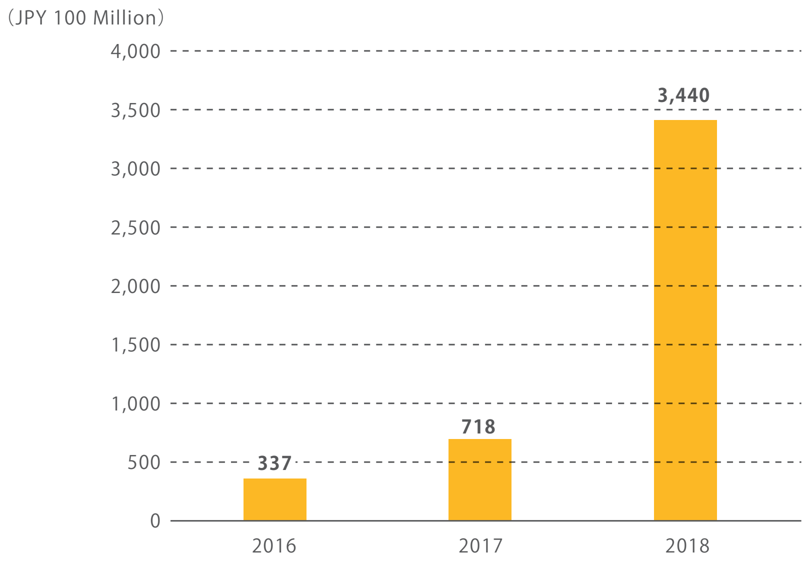
Entrance of major private foundations that are willing to provide risk capital that enables other investors with lower risk appetite to participate in impact investing projects.

The size of the Japanese impact investing market

The size of the Japanese impact investing market in 2018 is estimated at JPY 344 billion, up nearly fivefold from fiscal 2017. Factors that led to this growth are the increase of investments by existing impact investors from 2017 or before, and the entry of new investors into the market.

Of the new impact investors, notable in 2018 were those who succeeded in adding scalable investments, such as organizations that shifted their conventional investments to impact investments upon studying impact investment methods, as well as investment trusts that offered investment opportunities to individual investors and contributing JPY 100 billion to the investment balance. Meanwhile, many organizations steadily increased their investment balance from the year over by adding hundreds of millions of yen to impact investing.

Figure 1　The trend of the Japanese impact investing market size



2018 Highlights

Three key highlights are observed in the Japanese impact investing market in 2018.

❶ Expansion of financial products offered to individual investors

The research found that there was an increase in financial products for impact investments made available to individual investors in the general public, through crowdfunding and investment trusts. This trend is expected to continue, with more offerings to become available to individual investors.

❷ The expansion of Social Impact Bonds

In November 2018, a Social Impact Bond (SIB) was successfully implemented through a region-wide partnership among Hiroshima Prefecture and six cities. The collaboration between numerous regional governments helped to lower barriers to implement the SIB model. Modeled after an SIB issued in Hachioji City, Tokyo in 2017 to boost colon cancer screening and follow-up examination rates, the case proved that this SIB could be applied to different regions, paving the way for the model's proliferation to the 1,741 regional municipalities across Japan.

❸ Increased participation by mainstream financial institutions

The 2017 report confirmed the active participation of mainstream financial institutions in the Japanese impact investing sector, including life insurance companies, major commercial banks, and venture capital firms. This trend continued in 2018, further expanding to asset management companies and other insurance companies. Additionally, Environmental, Social and Corporate Governance (ESG) investing and activities towards the achievement of Sustainable Development Goals (SDGs) also increased. This entry of mainstream financial institutions is expected to continue.

The Current State of Impact Investing in Japan 2018

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Introduction

The Global Social Impact Investment Steering Group and the National Advisory Board

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

The GSG requires its member countries to form a national advisory board. Founded in 2014, Japan's National Advisory Board is comprised of experts from various sectors throughout Japan.

As of December 2018, the GSG Japan National Advisory Board consists of the following members:

Chairman

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

Vice Chairman

- Masataka Uo, President and CEO, Japan Fundraising Association

Board members

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

The Secretariat of the GSG Japan National Advisory Board is comprised of the Japan Social Impact Investment Foundation (SIIF), Asian Venture Philanthropy Network (AVPN), K.K. Kaze to Tsubasa, K-three Inc., and the Japan Fundraising Association.

About this Report

This report is a report on impact investing in Japan that dates back to July 2014 when the first edition was published, titled the "Current State of Social Impact Investment in Japan." Subsequent editions published in May 2015 "Proposals for the Expansion of Social Impact Investment" (May 2015), and the "Current State of Social Impact Investment in Japan" in 2016 (September 2016) and 2017 (February 2018) precede this report which documents the current state of the Japanese market.

Chapter 1, "Overview of Impact Investing," offers a glimpse of impact investing in the context of global trends, with a focus on its history and definitions. Chapter 2, "The Japanese Impact Investing Market," reports on the study of the impact investing market in Japan. Finally, Chapter 3, "Expanding the Japanese Impact Investing Sector," introduces ongoing discussions over impact investing.

With regards to market size estimation, in addition to a questionnaire survey of practitioners in the impact investment market, interviews and in-depth research on publicly available reports and information were conducted to calculate market size.

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

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CHAPTER 1 Overview of Impact Investing

❶ History and Current State of Impact Investing

According to the Global Impact Investing Network (GIIN),[1] "impact investing" is defined as investment that aims to generate financial returns, social and/or environmental returns at the same time. Various needs among investors, investees, and intermediaries accelerate the steady expansion of the impact investing market, especially in Europe and North America.

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

❶-1 Impact Investing – History and Background

The term "impact investing" was first mentioned more than a decade ago in 2007 at a conference organized by the Rockefeller Foundation.

Further back in history, in the Netherlands in 1968, a study group, which later developed into Triodos Bank, was formed to discuss the need for financial institutions that contribute to solve environmental and social issues. The eventual establishment of a foundation that provides funding to social enterprises in 1971[2] marked the beginning of impact investing in Europe. Subsequently, numerous financial institutions and cooperatives that focused on social finance, community finance, environmental finance, and so on emerged. In addition to Triodos Bank, some institutions developed from cooperatives such as the Co-operative Group in the UK and the GLS Community Bank in Germany. In this way, the origin of impact investing is observed in Europe and North America, and the history of impact investing in each country is reviewed as follows.

In the almost 50-year history of impact investing in Europe, a turning point occurred in 2000 when Sir Ronald Cohen established the Social Investment Task Force. As a result, new foundations, organizations and companies were formed, contributing to the expansion of impact investing activities, mainly in the UK. In the following years, several more milestones were achieved in the UK: in 2002, the establishment of Bridges Ventures, Community Development Financial Institutions (CDFIs), and the Charity Bank, followed by the launch of a new legal entity in 2004 called the Community Interest Company, for limited companies that are designated to use their profits and assets for the public good. In 2010, the first-ever social impact bond (SIB)[3] whereby the public and private sectors partner to fund projects in a pay-for-success financing model was constituted. Additionally, in 2012, Big Society Capital was founded as a fund of funds that provides financing to the impact investing market, using bank financing and funds from dormant bank accounts. Then in 2017, Barclays Capital became the very first major British bank to launch an impact investing fund called the Multi-Impact Growth Fund.

1 https://thegiin.org/
2 Monitor Institute (2009) "Investing for Social & Environmental Impact"
3 Not a typical bond, SIBs are a combination of pay-for-success contract with the public sector and fundraising from third party investors

Around the same time, on the other side of the Atlantic in the United States, the origin of impact investing was observed. In 1968, the Ford Foundation initiated Program-Related Investments (PRI) to invest in social enterprise activities through which foundations invest or loan capital to social businesses by utilizing a part of their endowments. Some examples include low-interest student loans, social businesses that generate employment for the poor and affordable housing projects. In 1994, with the introduction of the Riegle Community Development and Regulatory Act, CDFIs helped activate more regional economies, and the PRI market size reached more than $3 billion in 2000.

After the Rockefeller Foundation introduced the term "impact investing" in 2007, the financial crisis in 2008 underscored the need for new mechanisms which allowed investments to create healthier and more balanced societies. This ushered in a new wave of financial institutions and foundations from the private sector, including increased involvement in impact investing from the U.S. tech industry as illustrated by the Gates Foundation; and from the financial sector, Morgan Stanley's Impact Investment Services (2012) and Goldman Sachs' Social Impact Fund (2013). In 2011, the Rockefeller Foundation, the Global Impact Investing Network (GIIN), and JP Morgan published the first annual report on impact investing.[4] This trend is expanding outside of the financial sector; in recent years in the United States, Mark Zuckerberg, the founder of Facebook, announced a lifetime donation of 99% of his shares in Facebook stock and launched the Chan-Zuckerberg Initiative.[5] This was followed by the US buyout-fund TPG Growth establishing the Rise Fund with the rock band U2 in 2018,[6] which raised USD 2 billion for impact investing.

As a culmination of this trend, the Group of Eight (G8) industrialized nations decided to promote impact investing on a global scale at the UK Summit 2013. These nations went on to launch the Global Steering Group for Impact Investing (GSG) in 2015. Chaired by Sir Ronald Cohen, the GSG currently has 21 nations plus the EU as members, through which each government has implemented policies and promoted the growth of the market.[7]

4 J.P. Morgan, the Rockefeller Foundation and the GIIN (2010) "Impact Investments"
5 The Guardian (2015) 'Mark Zackerberg and Priscilla Chan announce baby girl – and $45bn charity intitiative'
6 World Economic Forum (2018) "The Rise Fund"
7 http://gsgii.org/

❶-2 Impact Investing – Public Policies and Current State around the World

Beyond the overall trends in Europe and the United States reviewed above, this report takes a closer look at the state of impact investing in GSG member countries, specifically the United Kingdom, Australia, Portugal, India and South Korea, mainly looking at updates in each impact investing market, in public policy and among key organizations.

❶-2-1 The United Kingdom

In 2000, then-prime minister Gordon Brown set up the Social Investment Task force, in which Sir Ronald Cohen served as a chairman until 2012. At the G8 Summit presided by the UK in 2013, Prime Minister David Cameron launched the Social Impact Investment Taskforce, followed closely by the launch of the UK National Advisory Board on Impact Investing.

Then in 2012, led by the Cabinet Office, Big Society Capital was established as a wholesaler, gathering GBP 4 million in funds from unclaimed assets and the main banks in the UK. In addition, while the government does not limit itself to impact investing, it provides financial services reserved for social businesses such as Future Builders, which offers finance to public service contractors, and British Business Bank, which supplies credit to small and medium enterprises (SMEs).

The UK also has a history of taking initiative in the field of Social Impact Bonds (SIBs), and today, 47 of the 130 existing SIB projects around the world are based in the UK.[8] A kind of impact investing scheme, SIBs link the project outcomes to financial return, enabling stakeholders such as governments, businesses and investors to pursue more precise social impact. Key projects led by the government include the Central Outcome Fund, which can be used for Pay-for–Success (PFS) payments; Unit Cost Database, which shows an estimated cost per single outcome by areas; and Outcome Lab, which researches and practices PFS and contract methods.

❶-2-2 Australia

Australia joined the G8 Social Investment Taskforce in 2013, and established the Australian Advisory Board for Impact Investing in 2014. Impact Investing Australia, a non-profit organization founded around that time, has played a key role in the advancement of impact investing in the country. The government of Australia announced an initiative to support social impact investments and grow the market, committing AUD 30 million over 10 years starting in 2017. In 2018, they announced an additional AUD 6.7 million would go towards a joint initiative under the partnership with Impact Investing Australia.

The government works actively to improve the investment environment related to affordable housing for low income households, and has provided AUD 1 billion to set up the National Housing Infrastructure Facility. In relation to the environment, the Clean Energy Finance Corp has committed AUD 10 billion over the course of a decade to invest in clean energy projects. Furthermore, Indigenous Business Australia is investing AUD 50 million for the economic development of the indigenous peoples. And in 2017, the Department of Foreign Affairs and Trade spent AUD 40 million to establish the Emerging Markets Impact Investment Fund (EMIIF), to support impoverished regions in South and Southeast Asia by investing in SMEs, as well as encourage the empowerment of women living in those regions through investment in enterprises that positively impact women.

8 Social Finance (2019)"Impact Bond Global Database"

❶-2-3 Portugal

The Portuguese Social Investment Task force was established in 2014. A consortium of entities including financiers such as Caloute Gulbenkian Foundation, and intermediaries like MAZE and Social Finance UK contribute greatly to the task force and the development of the social investment ecosystem in Portugal. Furthermore, the wholesaler Portugal Inovação Social (PIS) initiative plays a key role in developing the Portuguese emerging social investment market, leveraging EUR 150 million to operate from 2015 to 2023, mainly from the European Union's European Social Fund.

The Portuguese government has set up a EUR 15 million fund for capacity building of impact businesses. The government also plans to launch Revenue Participation Agreements (RPAs) whereby investors can take a return from financed organization through PIS. Portugal also launched an SIB outcomes-based fund with EUR 20 million.

❶-2-4 India

India's social impact investment taskforce, the National Advisory Board, was founded in 2014. The government has been actively trying to engage the private sector to become more involved in the social sector. India adopted the Corporate Social Responsibility (CSR) law in 2013 which mandates that all corporations spend 2% of average net profits over three most recent years on CSR activities, and this legislation has played a significant role in the development of the social sector in India. The country is now promoting its Aspirational District Plan which utilizes this CSR law and impact investing methods with the aim to increase investment from the private sector. India is also in the process of establishing a billion-dollar impact fund known as the India Impact Fund of Funds (IIFF).

❶-2-5 South Korea

South Korea launched a Social Investment Taskforce in 2017, and subsequently its National Advisory Board in 2018.[9] The Social Enterprise Promotion Act of 2007 provided the framework for developing national policies and for providing social enterprises official legal status. This legal form for social enterprises makes them eligible for support from the Ministry of Employment and Labour if they meet certain requirements. The South Korean government supports impact investing, pledging USD 120 million in its annual budget each year to establish a wholesale institution. In addition, in 2018, the Ministry of SMEs and Start-up and Financial Services Commission is scheduled to set up two social impact funds, respectively USD 100 million and USD 200 million per annum in size. The government is also partnering with the credit union KODIT, where social enterprises can get a credit guarantee with an interest rate discounted between 1.0 to 1.5%. With regard to the SIB market, there are two projects focusing on education and children with special needs in the country. However, faced with a lack of legal basis for the government to allocate portions of their budget to SIBs, talks are currently underway for future regulation reforms.

9 The Global Steering Group for Impact Investment (2018)"Catalysing an Impact Investment Ecosystem"

❶-3 Trends among Impact Investing Organizations

In addition to GSG, there are three representative organizations that aim to advocate impact investment globally, which are the Global Impact Investors Network (GIIN), Impact Management Project (IMP) and SDG Impact.

❶-3-1 Global Impact Investors Network (GIIN)

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

The GIIN Investor Forum 2018 was held in October 2018 in Paris, France, where more than 1200 individuals from over 650 organizations attended. The following month, in November 2018, the forum titled, "Impact Investing in Asia: A Diverse and Dynamic Market" was also held simultaneously in Japan, Vietnam, Indonesia, the Philippines, Hong Kong and Singapore.

❶-3-2 The Impact Management Project (IMP)[10]

In 2016, Bridges Fund Management led a group of over 2000 organizations in an initiative known as the Impact Management Project (IMP). This initiative led to the launch of the IMP network in 2018, as a platform for corporations and investors to share knowledge, pursue synergistic partnerships, and generate a common understanding on social impact measurement and impact management.[11] The IMP network is a collaboration of global organizations including the United Nations Development Programme (UNDP), the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD), Social Value International (SVI), the Global Reporting Initiative (GRI), GIIN, the Principles for Responsible Investment (PRI), the World Benchmarking Alliance (WBA) and the GSG, which compose the core members, together with partner members. In Japan, K-three Inc. joins as a strategic partner[12] member.

❶-3-3 SDG Impact[13]

SDG Impact was founded in 2018 by the United Nations Development Programme (UNDP), in cooperation with the Impact Management Project. SDG Impact provides standards and tools, and networking opportunities to enable effective investment for the Sustainable Development Goals (SDGs) adopted by the United Nations in 2016. SDGs, also known as the 2030 Agenda for Sustainable Development, are a collection of 17 goals and 169 targets set by the United Nations General Assembly in 2015. The agenda pledges to "leave no one behind," and the goals are unique in that they call for action by all countries including both developed and developing. It is estimated that USD 5 to 7 trillion is needed annually to achieve these goals.[14]

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

❷ History and Background of Impact Investing in Japan

The impact investing market in Japan continues its growth trajectory. The estimated market size grew from JPY 33.7 billion in 2016 to JPY 71.8 billion in 2017.[15] An increase in Environmental, Social and Governance (ESG) investments, a demographic shift caused by an aging society and decline in birthrate, and the effect of natural disasters have played a role in the formation of the impact investing market in Japan. ESG investment is the practice of investing taking into account environment, social and governance factors. In 2018, ESG investments reached JPY 232 trillion, more than 1.7 times greater than the previous year.[16] Much like in the West, this growth is driven by events such as the heightened long-term risks of worldwide environmental degradation, the reorientation of the financial market against short-termism triggered by financial crises, a series of major corporate scandals, and the growing interests towards business models that solve social and environmental issues. Structurally, issues such as the rise of social security and medical insurance costs due to aging demography, and the need for childcare services to support working mothers go beyond what the public resources that have supported the system in the past can cover. In relation to calamities, the Law to Promote Specified Nonprofit Activities was passed in 1998 following the Kobe Earthquake of 1996. After the earthquake and tsunami of 2011 in eastern Japan, monetary donations from within and outside of Japan poured into the region; in addition, low-interest loans for nonprofits and companies addressing post-disaster recovery and subsidies were established during this time. Such activities have continued beyond emergency support, with several social impact investments originating from these activities.[17]

Moreover, national and local governments are also considered to have contributed towards the growing social impact investment market. The enactment of the Dormant Accounts Utilization Bill in 2016 will effectively start in 2019, with the Cabinet Office's appointment[18] of the Japan Network for Public Interest Activities (JANPIA) as its Dedicated Utilization Organization. The country's first SIB projects backed by local governments came about in 2017 in Kobe City in Hyogo and Hachioji City in Tokyo, and in 2018, a wider regional collaboration model was implemented in Hiroshima Prefecture. Several more SIB projects are currently in development or under consideration.

❷-1 Trends in Demand

Two key trends are seen among service providers (the demand side of funding).

First is the growth of social enterprises. While social enterprises have no legal specialized form in Japan, the cases listed here refer to organizations that address social issues regardless of their status as nonprofits or for-profit companies. According to the 2015 "Survey on Aggregated Activity Size of Actors in Societies of Mutual Assistance in Japan" commissioned by the Cabinet Office, the size of social enterprise activities in Japan is estimated as follows. Social enterprise here is defined as organizations that fulfill these seven elements:

15 GSG (2018) "The Current State of Impact Investing in Japan 2017"
16 Japan Sustainable Investment Forum (JSIF) (2018) "Fourth Sustainable Investment Survey in Japan"
17 GSG (2016) "The Current State of Impact Investing in Japan 2016"
18 Cabinet Office (2019) Appointment of the Dormant Utilization Organization based on the Act on Utilization of Dormant Deposits"

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

Figure 2 Overview of social enterprises in Japan[19]

Number of social enterprises	205,000
Total added value	JPY 16 trillion (3.3% of GDP)
Paid employees	5,776,000
Revenue on social business	JPY 10.4 trillion

Source: Cabinet Office

The number of nonprofit organizations among social enterprises has also increased compared to 2017. There has been a rise in nonprofits that earn business revenue in addition to donations or subsidies, and there is an increase in demand for supplying funding to nonprofits operated with earned revenue.

Figure 3 Number of nonprofit entities[20・21]

Nonprofit organizations	51,770 (+47)
Certified nonprofit organizations	1,088 (+57)
Public-interest associations and foundations	9,631 (+145)
Cooperatives	42,924 (+412)
Social welfare organizations	21,706 (+780)
Education organizations	8,127 (+25)

*Parentheses indicates changes from 2017[22]

Sources: The Cabinet Office NPO Survey, National Tax Agency Corporate Number Publication Site

A second emerging trend has been the increase of startups that may not necessarily fulfill the seven criteria listed above, but that have a social mission while also indicating promises of high economic performance. In conjuncture, there has been a rise in venture capital and institutional capital investing in such startups as impact investment targets.[23]

19 Cabinet Office (2015) “Survey on activities size of social enterprises in Japan”
20 Cabinet Office (2015) “NPO Statistics Information”
21 National Tax Agency (October 2018) “Public website for enterprise identification number”
22 GSG (2018) “The Current State of Impact Investing in Japan 2017”
23 Dai-ichi Life Insurance news release (2018)

❷-2 Trends in Supply

In terms of supply side trends of impact investing, funding suppliers can mainly be categorized as corporations or individuals. In 2018, there was an increase in products geared toward individual investors, such as the Social Investment Declaration by Crowd Credit Inc.[24] and the social impact investment fund launched by Nomura Asset Management Co., Ltd..[25]

From the organizational side, as their first investment from its impact investing fund to support women, Sasakawa Peace Foundation invested JPY 1 billion in a microfinance investment fund by BlueOrchard Microfinance Fund SA of Switzerland.[26]

Trends in funding supply are categorized below by types of suppliers: individual investors, foundations, financial institutions and venture philanthropy.

Figure 4 Cases of financial services providers offering products for individual investors

Organization	Overview
Crowd Credit Inc.	A corporation that offers crowdfunded loans. Funds are crowdsourced in Japan, then loaned to companies in developing countries. In June 2018, Crowd Credit made a public declaration to proactively invest in social enterprises around the world.
Plus Social Investment K.K.	Headquartered in Kyoto, the company provides investment-based crowdfunding services. The majority of investments go to domestic social enterprises and projects related to renewable energy and SIBs.
Music Securities Inc.	An impact investing platform for individuals where investors can derive both financial and social returns, aiming to solve global and social issues. The company offers investment-based crowdfunding services. It is involved in the 2018 Hiroshima prefectural regional collaboration SIB.[27]
Nomura Asset Management Co., Ltd.	Nomura partnered with American Century Investment Management Inc. (ACI) to offer the Nomura ACI Advanced Medical Impact Fund as of October 2018. The fund focuses on pursuing investments that are both potentially financially viable and solve social issues.

With respect to foundations, their contributions are significant in a still immature social investment market, where high economic returns cannot be realistically achieved across the board. As such, the strategic use of blended finance, or public-private development funds, from foundations could be effective to mobilize private capital .

24 Crowd Credit news release (2018)
25 Nomura Asset Management news release (2018)
26 Sasakawa Peace Foundation news release (2018)
27 Music Securities news release (2018)

Figure 5 Examples of foundations

Organization	Overview
Japan Social Impact Investment Foundation (SIIF)	Established in 2017, the foundation's mission is to promote social impact investment in Japan. SIIF invests in intermediaries such as Plus Social Investment Inc. (see above); SIBs or other impact investment deals; and provides funding for research and hosts events related to the field of impact investment.[28]
Sasakawa Peace Foundation (SPF)	SPF engages in the execution, support, research and survey of activities which contribute to world peace and the welfare of mankind. In 2017, SPF launched the "Asian Women's Impact Fund" aimed to grow to JPY 10 billion. In 2018, SPF made its first investment from the fund, providing JPY 1 billion to the BlueOrchard Microfinance Fund.

As the number of social entrepreneurs that address social issues increases, impact investment capital is also starting to originate from financial institutions, corporations and venture capitals (VCs) that have started to invest in such startups in hopes of finding solutions to social issues while gaining economic returns. Moreover, financial institutions which are primarily in the loan business like banks, credit unions and credit associations have recently started proactively evaluating senior care and environmentally-friendly enterprises and package them. This trend was initially triggered around 2003 when CSR had its public reckoning in Japan, whereby financial institutions were then expected to reflect CSR in their main lines of business.

Figure 6 Examples of financial institutions

Method	Organization	Overview
Venture finance	Shinsei Corporate Investment Limited	In 2017, Shinsei Bank and Shinsei Corporate Investment launched a fund dedicated to childcare support in Japan. Invested from the fund to COMPASS Inc. and Arcterus Co., Ltd. in 2018.[29]
	Dai-ichi Life Insurance Company, Limited	Following its 2017 foray into impact investing when Dai-ichi backed Gojo & Company Inc., the company had made 8 additional investments by December 2018.[30]
Loan finance	Japan Finance Corporation	JFC invests in social businesses and disseminates related information thought to be useful for corporate management.
	Development Bank of Japan Inc. (DBJ)	The DBJ introduced a certification loan program in 2004. Ratings include the DBJ environmentally rated loan, business continuity management (BCM) rated loan, employees' health management rated loan and the green building certification.

The approach which applies the philosophy and methods behind venture capital known as venture philanthropy, which began in the West Coast of the United States in the 1990s, has also taken foot in Japan.

Figure 7 Examples of venture philanthropy

Organization	Overview
Japan Venture Philanthropy Fund (JVPF)	Co-founded jointly between Social Investment Partners (SIP) and the Nippon Foundation in 2013. As of end of 2018, the fund has provided nonprofits and social enterprises with financial support in the form of investments or grants, and organization management and development support.[31]

28 SIIF (2018) "Japan Social Impact Investment Foundation Annual Report 2017"
29 Shinsei Corporate Investment news release (2018)
30 Dai-ichi Life Insurance news release (2018)
31 Japan Venture Philanthropy Fund news release (2018)

CHAPTER 2 THE JAPANESE IMPACT INVESTING MARKET

❶ Estimating the Market Size

❶-1 Research Perspective

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

In addition to market size estimation, the survey also gathered information on respondents' level of interest in impact investing, as well as the challenges in impact investing.

❶-2 The Definition of Impact Investment

The definition of impact investment in the 2018 survey is determined by the Cabinet Office and the GSG, which was likewise applied in the 2017 survey.

Figure 8 Definition of Term of Impact Investment

Term	Definition
Social impact	Inclusive of both short-term and long-term, social and environmental changes or effects as a result of specific projects or activities.
Social impact measurement	To understand social impact through quantitative and qualitative approaches and make a value judgment of specific projects or activities.
Social impact investment	Investments with both social impact and financial returns. In this report, all forms of financial transactions with economic returns such as equity and bond investment, loans, lease, etc., are considered investments. Donations, subsidies and grants are excluded.

Sources: Cabinet Office and the GSG (2017)

❷ Selection Process of Impact Investing Cases

❷-1 Approach to selecting impact investing cases

To identify cases of social impact investing, this report assessed whether an investment decision process takes into account social and environmental outcomes, as well as whether it accounts for social impact measurement.

Emphasis was placed on how an investment contributed to solving social and environmental issues; mere measurements or assessments for risk avoidance purposes did not qualify. Furthermore, if social impact was measured post-investment rather than at the time investment decisions were made, such cases were excluded as they were deemed not to have intentions of social impact.

❷-2 Comparing against the 2017 Research Findings

The 2017 research report assessed intention of impact investing based on two inclusion criteria:

(A) Restricted use of funding towards social and environmental businesses/projects. For instance, clear links between investment and use of funding, such as funding to build and operate hospitals or daycare facilities, build and operate renewable energy plants, or for microfinance institutions were sought. Such connections were not only limited to contractual restrictions, but investments made to businesses dedicated to social and environmental causes applied.

(B) Evaluation of social and environmental outcomes in the investment decision making process.

Based on the findings from 2017, in the 2018 research, "B" was solely selected to objectively assess intent. This was due to the thinking that "A," namely the "restricted use of funding," could be subsumed by further specifying what constitutes "the evaluation of social and environmental outcomes" reviewed under B. Specifically, by setting performance indicators for "B" (investing in social and environmental outcomes) and confirming that evaluations were conducted, it could be determined whether funds are restricted, and regardless of such restrictions, whether the investor had an intention to achieve social impact.

In organizations that promote impact investing on a global scale such as the Impact Management Project (IMP)[32] and the International Finance Corporation (IFC),[33] there is greater emphasis on impact measurement than on restricted use of funds. The rationale is that having restrictions in place is not as critical as the measurement of investing outcomes when pursuing greater positive social impact and managing impact.

Given that more newcomers with diverse backgrounds are likely to join the impact market in the coming years, and the diverse ways in which the market itself will develop, "A" may limit the scope of such research, and thus, "B" was selected as the sole criteria for the 2018 survey.

32 https://impactmanagementproject.com/glossary/
33 IFC (2018) "Investing for Impact: Operating Principles for Impact Management"

❸ Research Scope for Market Estimation

This research initially compiled a list of research samples which included all institutions potentially related to social impact investing in order to select impact investing cases. Specifically, the list honed in on Japanese domestic investors that have made public statements such as signatories of PRI, Principles for Financial Action for the 21st Century (PFA21) and others, and looked at a wide research sample. The list is as follows:

Figure 9　Research sample

Selection criteria (some overlapping)	Type of organization	Number
● PRI signatory ● PFA21 signatory ● Japan Sustainable Investment Forum survey participant ● Social Impact Measurement Initiative member ● Venture capital ● Securities ● Other relevant organizations	Banks, credit unions and credit associations	157
	Insurance	27
	Securities	17
	Asset management firms (namely listed companies)	51
	Private equity and VC	123
	Lease & non-bank institutions	60
	Other organizations	55
	Pension funds	5
	Listed companies	8
	Local governments	2
	Governmental financial institutions	12
	Total	517

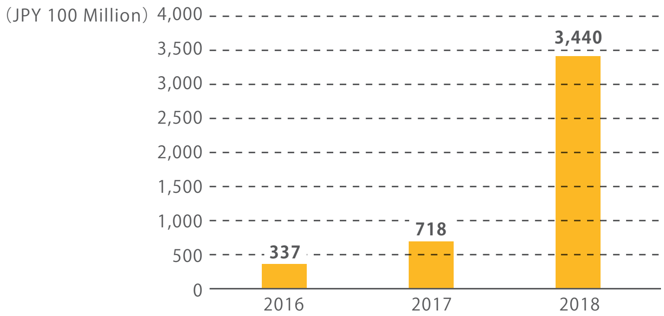
❹ Market Size Estimation Findings

❹-1 Overview

To estimate the market size of impact investing, questionnaires were sent to selected organizations, and the responses were reviewed against the criteria outlined above to determine whether the cases qualified as impact investments.
The questionnaires were mailed out on October 2, 2018, with a deadline to remit by October 23, 2018. Of the 517 organizations sampled, 10.4% or 54 organizations[34] responded. Of those 54, a total of 20 were acknowledged as impact investment cases.

Based on the survey using the questionnaire, interviews and desk-based research, an estimated investment balance of JPY 344 billion was allocated to impact investing in Japan.[35] Some of the questions from this questionnaire were compared to the global GIIN Annual Impact Investor Survey findings..[36]

Figure 10 Total estimated impact investing balance in Japan



The latest findings indicate that the market size of impact investing in Japan in 2018 grew 4.8 times greater compared to 2017. This growth can be attributed to the additional capital commitments by existing investors and the increase in the number of organizations that newly began impact investing.
What stood out in the 2018 survey is that some of the newcomers to the market had achieved scale, such as by intentionally shifting their traditional investments to impact investing upon careful review, or by setting up investment trusts that were offered to individual investors to effectively add JPY 100 billion to the market. Meanwhile, many organizations continued their commitment to impact investing by allocating an additional several hundred million yen, contributing to the balance increase from 2017.

The following table summarizes the impact investors who contributed to the estimated investment balance. Especially noteworthy are the number of new entrants to the market that are major financial institutions, such as Nomura Asset Management Co., Ltd., and MS&AD Insurance Group Holdings Inc. Of those continuing from the 2017 survey, there were several organizations that increased their investment balances, including Gojo & Company Inc., Sophia School Corporation, Japan Finance Corporation (JFC) and Japan International Cooperation Agency (JICA)

34 Includes responses submitted past the deadline
35 Includes equity investments as well as funds managed on behalf of clients
36 GIIN "ANNUAL IMPACT INVESTOR SURVEY 2018"

Figure 11 Impact investors confirmed through the survey

Type	Organization name	Examples of impact investing
Governmental financial institutions	Japan Finance Corporation (JFC)	Loans to businesses operating social enterprises
	Japan International Cooperation Agency (JICA)	Loans to overseas agricultural supply chain enhancement projects, renewable energy projects
Asset owner	Sophia School Corp (Sophia University)	Global Green Bond Fund, Microfinance Fund, Global Sustainability Fund, JICA bonds
Asset management firm	Nomura Asset Management Co., Ltd.	Nomura ACI Advanced Medical Impact Fund
	Kamakura Investment Management Co., Ltd.	Investment Trust *"Yui 2101"*
Securities firm	Daiwa Securities Co., Ltd.	Daiwa Microfinance Fund
Major bank	Sumitomo Mitsui Banking Corporation	SIB in Kobe City for chronic kidney disease and prevention of severe diabetic nephropathy
Regional financial institution	Seibu Shinkin Bank	CHANGE, i.e., the Seibu social business development support loan
Insurance companies	The Dai-ichi Life Insurance Company, Limited	Investing in healthcare and insurance tech startups that address social issues
	MS&AD Insurance Group Holdings, Inc. (co-investment by 4 group companies)	The World Bank's Sustainable Development Bond
Venture capital firms	Digisearch & Advertising, Inc.	Structuring and investing in an SIB for colon cancer screening in Hachioji City, Tokyo. Includes CEO Seiji Kurokoshi's personal investments as a qualified institutional investor.
	Shinsei Corporate Investment Limited	Shinsei Child-care Support Fund
Foundations	Japan Social Impact Investment Foundation (SIIF)	SIBs in Kobe, Hachioji and Hiroshima; investing in healthcare tech startup with an impact evaluation system; investing in impact investment intermediaries
	Sasakawa Peace Foundation	Asian Women Impact Fund
Organizations specializing in impact investing	Gojo & Company, Inc.	Microfinancing through microfinance subsidiaries and partner companies in other Asian countries
	KIBOW Foundation	Investing in businesses operating social enterprises
	Social Investment Partners	Unlisted social enterprises and nonprofits through the Japan Venture Philanthropy Foundation (JVPF)
	MAKOTO	Investing in unlisted social enterprises
	Plus Social Investment	Establishment and sales of a social impact investment fund
	Nextshift Co., Ltd.	Loans to microfinance institutions

When asked about number of investments, 47% reported they had executed one to three investments in the latest fiscal term, and 77% replied they had cumulatively executed more than four investments in total. Many investors are taking the "slowly but surely" approach by executing one investment at a time, but as the number of investments executed by such investors increases, so is expected an overall market expansion in Japan.

Figure 12 Number of impact investments (latest fiscal term) (SA[37], n=15)

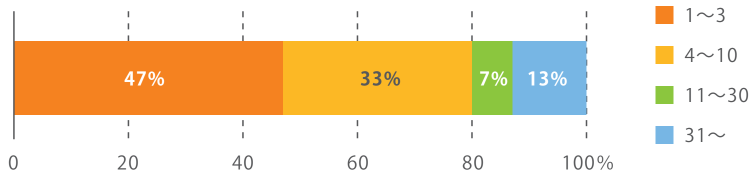
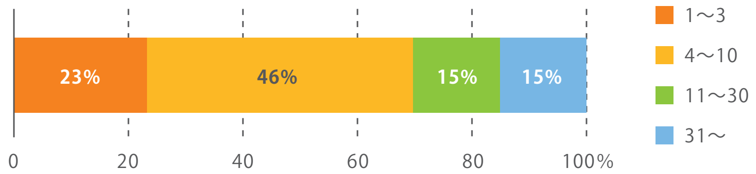


Figure 13 Number of impact investment cases since establishment (SA, n=13)



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

To better understand the state of impact investing in Japan, the survey compared the findings to those of the 2018 GIIN survey, based on the following five criteria.

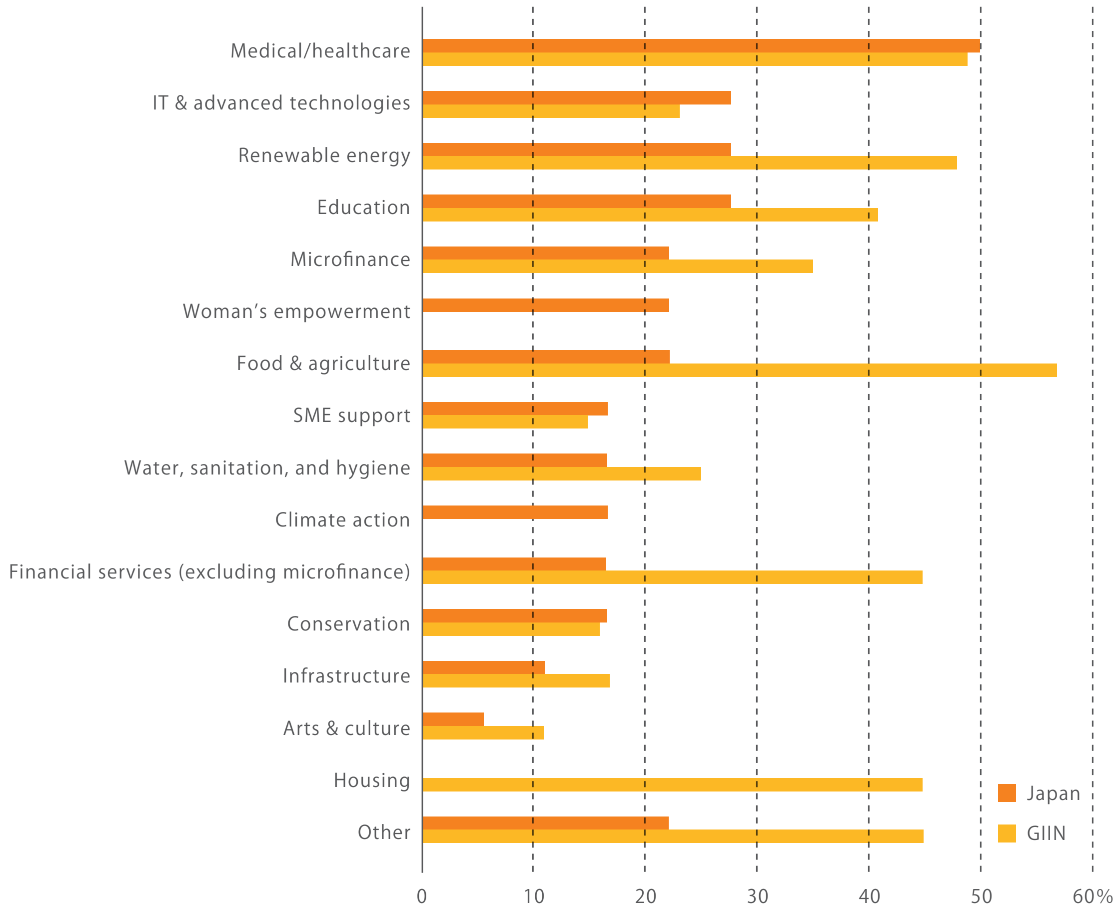
（1）Industry of targeted investment

Respondents in the Japanese survey allocated the most capital to medical/healthcare (50% of respondents), while food & agriculture gathered the most capital in the global GIIN survey (57% of respondents). It can be surmised that an aging society and increase in medical expenditures is seen as a critical social issue in Japan, leading to the popularity of the sector. It is noteworthy that in the GIIN survey, medical/healthcare came in second (49% of respondents), thus speaking to the worldwide popularity of this sector as an investment target. Regarding housing, however, no respondents in Japan invested in the sector, while it came in high at fourth in the global survey (45% of respondents).

Two areas identified by the 2017 and 2018 Japanese survey, women's empowerment and climate action, have not been selected as investment sectors in the GIIN survey.

37 SA stands for single answer where respondent can choose one answer from multiple choices.

Figure 14　Sector allocations (Number of respondents, MA[38], n=18)

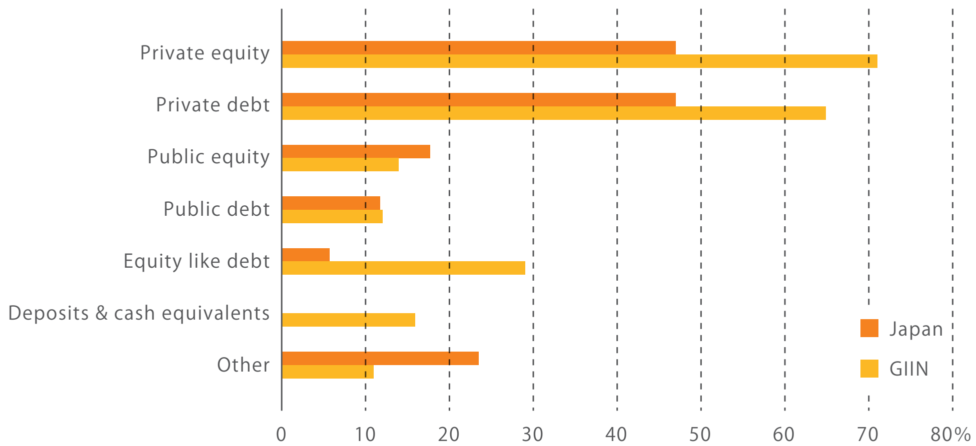


*The GIIN survey allowed for multiple answers, n=229

(2) Instrument of investment

Both the Japanese and GIIN surveys found that most investors chose private equity and private debt as the instrument of investment. There appears to be a general trend regardless of country or territory in terms of investment methods in impact investing.

Figure 15　Instrument of investment (Number of respondents, MA, n=17)



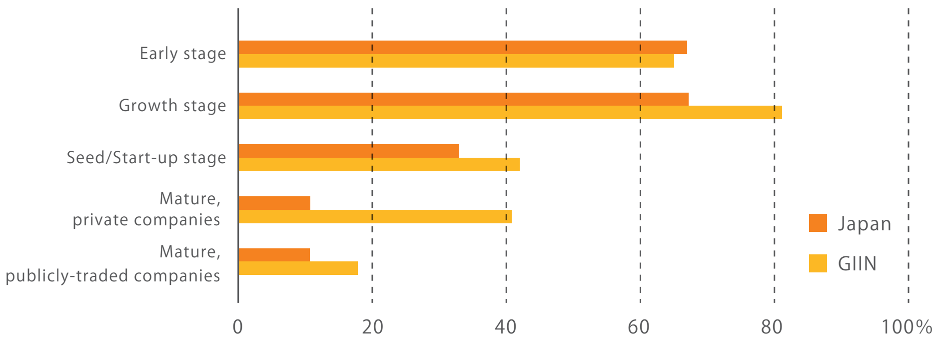
*GIIN survey allowed for multiple answers, n=229

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

(3) Allocations by stage of business

When reviewing allocations by stage of business, the greatest share of funds in Japan was invested in early and growth stage investees similar to the global survey.

Figure 16 Allocations by stage of business (Number of respondents, MA、n=9)

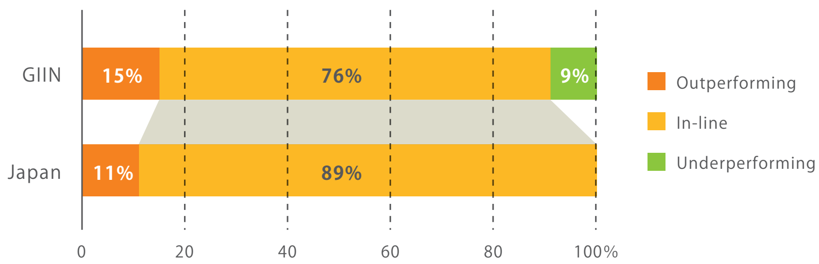


*GIIN survey allowed for multiple answers, n=190

(4) Returns

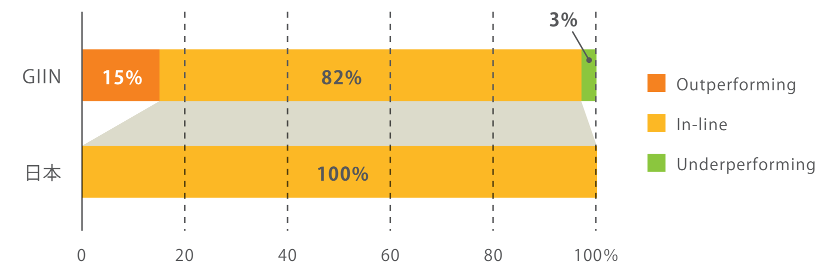
In a comparison of the Japanese survey and global survey in returns, the majority of respondents indicated that their investments met both their social and financial performance expectations. In the case of the Japanese survey, in relation to social impact returns, all replied that their expectations were met.

Figure 17 Financial performance (SA, n=13)



*GIIN survey: n=216, "not sure" responses excluded
*Japanese survey, "not sure" responses excluded

Figure 18 Social impact performance (SA, n=6)

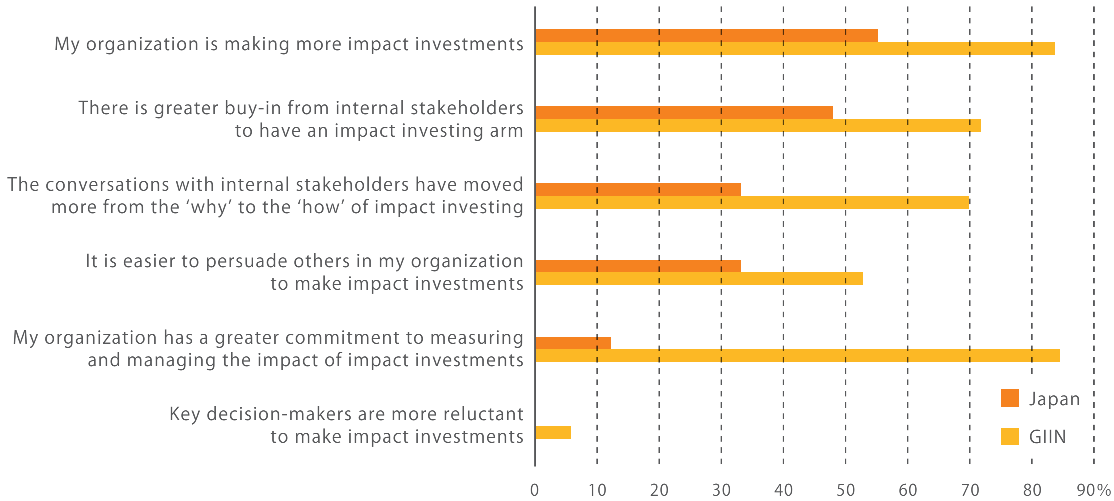


*GIIN survey: n=218, "not sure" responses excluded
*Japanese survey, "not sure" responses excluded

(5) Changes within the organizations

When asked about internal changes, in Japan, more than half of the respondents (56%) replied that “the organization was making/planning more impact investments”; however, only 11% found that “the organization has a greater commitment to measuring and managing the impact of impact investments.” In Japan, challenges remain to bringing an increase in impact investment opportunities into an increase in commitment to impact management. Meanwhile, in the global survey, “my organization is making more impact investments” and “my organization has a greater commitment to measuring and managing the impact of impact investments” overwhelmingly came out on top, with 84% responding yes to both. These numbers indicate there is a difference in the penetration of impact investment as well as expectation of quality, between Japan and other countries.

Figure 19　Changes in the organization from the year before (MA, n = 26)

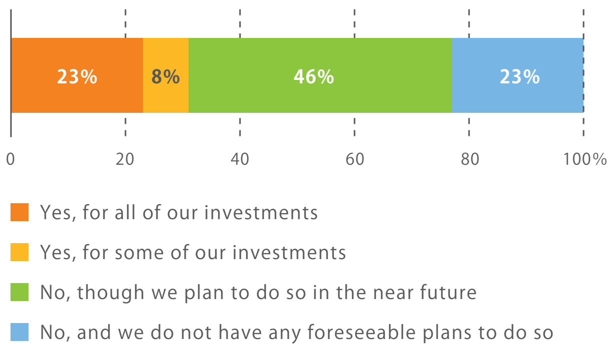


*GIIN survey: multiple answers, n=60, 3-year comparison

❹-3 Tracking impact investment performance to the SDGs

When asked whether impact investments were tracked to the Sustainable Development Goals (SDGs), 31% replied yes, and in total, 77% either replied yes or that they planned to do so in the future. Because the SDGs can be universally shared among stakeholders, the optimization of impact investment’s contributions to the SDGs facilitates discussions about the outcome of impact investing among stakeholders.

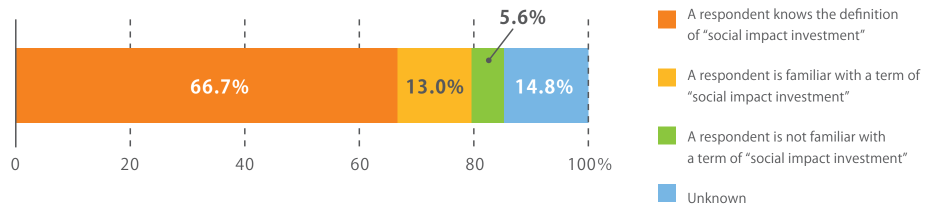
Figure 20　Tracking impact investment performance to the SDGs (SA, n = 13)



❹-4 Awareness of impact investing

The survey asked about the awareness of impact investing. When asked about familiarity with the term "impact investing," 67% responded that they knew the definition of the term; Combined with those who were familiar with the term, awareness among respondents reached 80%. It is possible that only respondents with awareness of social impact investing participated in the survey, but in any case, it can be said that most respondents were familiar with the term "social impact investing" within the scope of this survey.

Figure 21 Awareness of the term "social impact investing" (SA, n = 54)

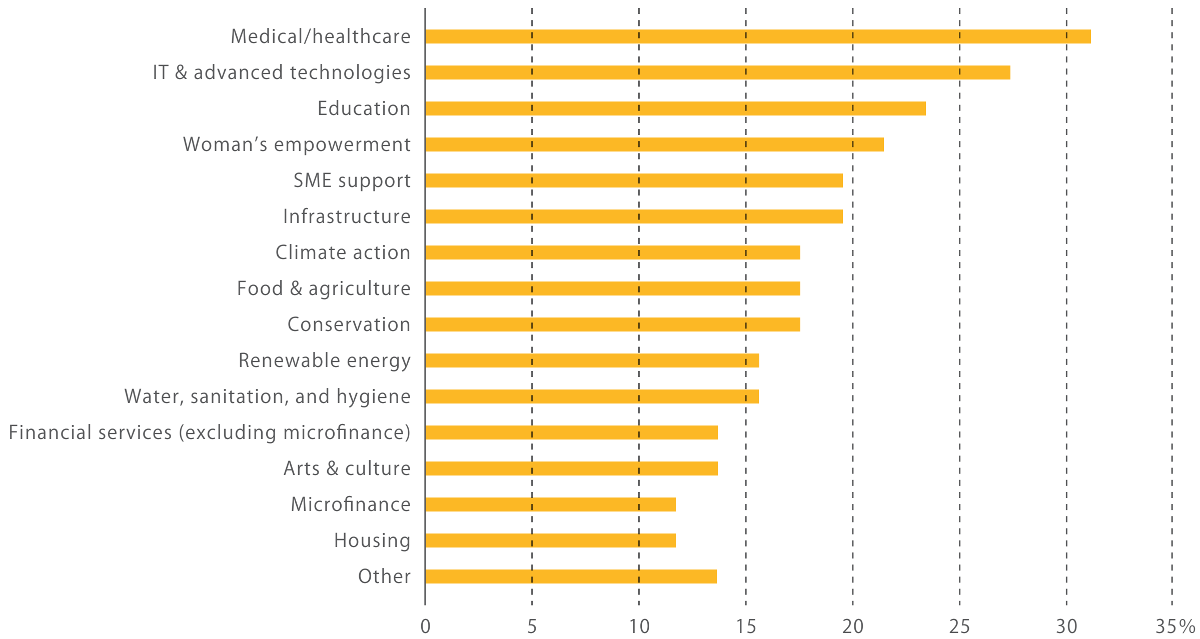


❹-5 Future plans for impact investing

The survey asked about future plans for impact investing, and conditions under which respondents would increase their investments.

Firstly, regarding sectors where respondents planned to increase allocations in the future, 31% selected medical/healthcare, already the most popular sector of impact investing in Japan. Meanwhile, "housing" and "arts & culture" were also selected as areas of future impact investments despite there being no cases of investments in the present, indicating that an expansion in investment range could occur in Japan.

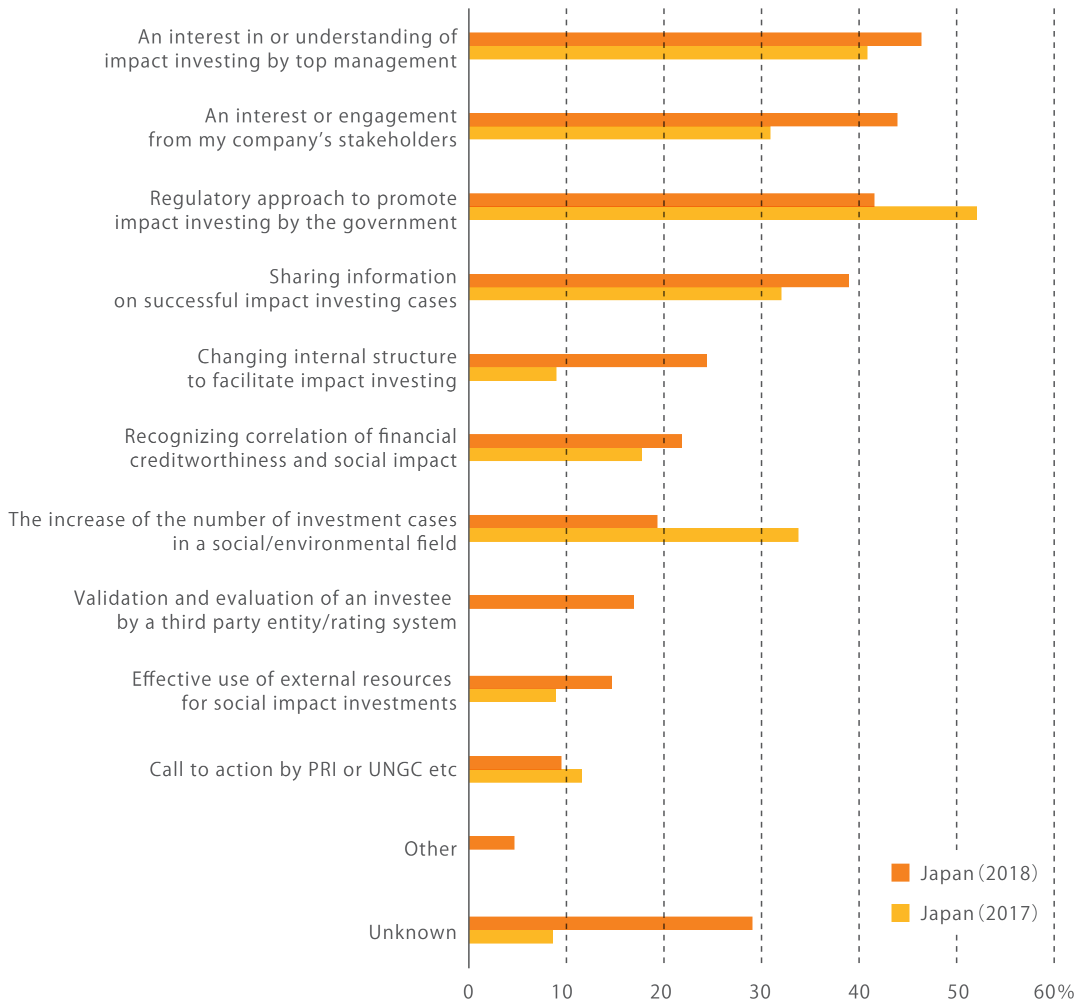
Figure 22 Future plan for increased allocation by sector (MA, n = 35)



When asked what conditions would make increasing impact investments easier, the most popular reply was "an interest in or understanding of impact investing by top management" (46%). "An interest or engagement from my company's stakeholders" was also considered to help to grow impact investments (44%). As such, heightened interest among not only upper management but also asset owners, shareholders and investors are critical.

Other popular choices among respondents were "sharing information on successful impact investing cases" and "changing internal structure to facilitate impact investing." As more impact investing cases are created and shared, together with increased awareness regarding impact investment instruments, there is a chance for social impact investing to accelerate.

Figure 23 Conditions to engage in more impact investing - 2018 vs 2017 survey findings[39] (MA, n = 41 (2018 survey), n = 46 (2017 survey))

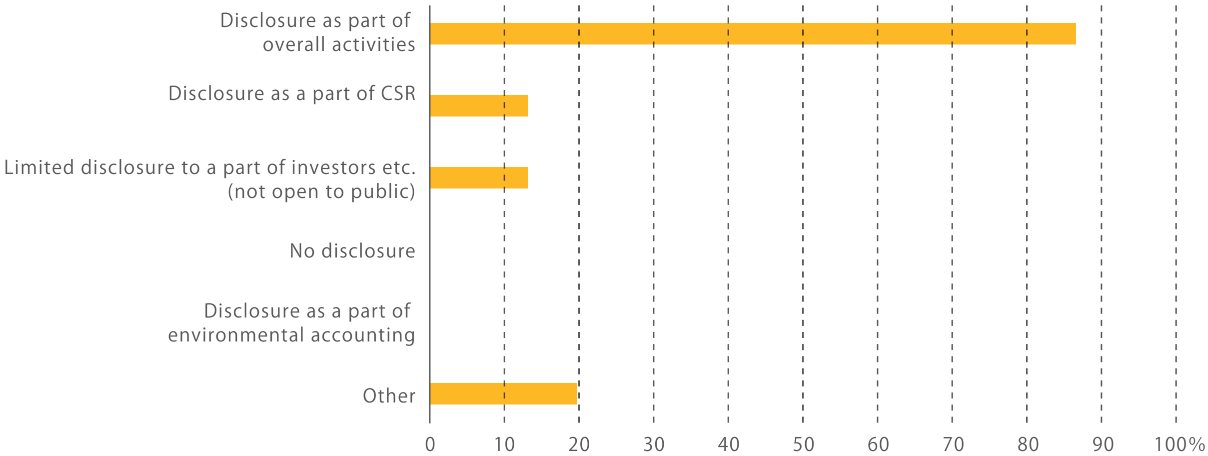


[39] GSG (2018) "The Current State of Impact Investing in Japan 2017"

❹-6 Disclosure of impact investments

The survey also inquired on organizations' disclosure of their impact investments, to which 87% replied "disclose as part of overall activities." In most cases, the media channels used for disclosure were disclosure journals, CSR reports and CSR websites. Some organizations had dedicated pages set aside on their websites, while others utilized social media to disclose their impact investing activities.

Figure 24 Information disclosure (MA, n = 15)



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

❺ Case Studies

Three case studies have been selected from the aforementioned players in the impact investment industry to represent recent shifts in the market.

Figure 25 Case studies and reason for selection

No.	Case study	Sector	Reason for selection
❺-1	Impact investing through the Nomura Asset Management investment trust	Medical/ healthcare	● Provide impact investing opportunities to general individual investors through an investment trust ● Share insights gained through overseas asset management partners
❺-2	Multiple impact investments by Dai-ichi Life Insurance	Medical/ healthcare	● Market entry by a major financial institution ● Building and improving the impact investment process in-house
❺-3	Region-wide SIB and crowdfunding for the promotion of colon cancer screening in Hiroshima prefecture	Medical/ healthcare	● Provide impact investing opportunities to general individual investors through crowdfunding ● A collaboration model by numerous regional government offices

❺-1 Impact investing through the Nomura Asset Management investment trust

❺-1-1 Investment overview

This case study takes a closer look at the 'Nomura ACI (American Century Investment Management Inc.) Advanced Medical Impact Fund', set up by Japan's largest asset management company, Nomura Asset Management.

For clarity, this case study is not meant to endorse the fund, nor can it be held liable for the investment process or any outcomes.

Figure 26 Investment Overview

Fund name	Nomura ACI Advanced Medical Impact Fund —Investment A Currency-hedged asset growth type —Investment B Unhedged asset growth type —Investment C Currency-hedged dividend type —Investment D Unhedged dividend type
Fund establishment	October 23, 2018
Fund period	Through December 19, 2028
Fund size	JPY 81.5 billion (as of November 5, 2018)
Fund manager	Nomura Asset Management Co., Ltd
Investment target	Advanced medicine and healthcare related companies worldwide
Additional stakeholders	A portion of the mother fund is contracted to American Century Investment Management Inc. as the fund manager
Expected social impact	The development of new or innovative treatments, access to medicine and healthcare services, new solutions that lead to the lowering of healthcare costs, and the development of more productive and efficient equipment, service and software
Highlights	● Provides impact investing opportunities to individual investors ● A unique portfolio structure based on the Sustainable Development Goals (SDGs)

❺-1-2 Fund details

(1) Investor (Fund manager)

【Fund manager: Nomura Asset Management Co., Ltd.】

Established (year): 1959

Capital: JPY 17.18 billion

Main activities: Japan's largest asset management company, offering investment trusts and fund management. Cultivated a global client base from early on, and continues to be active in the United States, Europe and Asia.

【Fund management company: American Century Investment Management Inc. (ACI)】

Established (year): 1958

Capital: Undisclosed

Main activities: A privately-controlled, independent investment management firm with headquarters in Kansas City, Missouri. Its principal shareholder is the nonprofit organization Stowers Institute for Medical Research which was established by ACI's founder James E. Stowers in 1994 and dedicated to medical research.

(2) Fund scheme

① Background

In the healthcare sector in Japan, an aging population and a concentration of population in urban cities has led to rapid demand growth for medical services, more chronic diseases, and ballooning healthcare costs. In other parts of the world, many challenges including incurable diseases that have no known effective treatments, and lack of accessibility to medical services continue to plague mankind. Moreover, issues such as an aging population and the fiscal burden of medical costs are not challenges that are unique only to Japan, but a shared concern among countries across the world.

At the same time, technological advances are continuously revolutionizing the healthcare sector. There are tremendous developments such as robots that support nursing and caregivers, automated diagnostics (applying artificial intelligence to medical diagnoses), data tracking by wearable technology and apps, and advancements in biotechnology including regenerative medicine. Through the application of next generation technologies, the healthcare market is shifting towards providing total healthcare solutions; that is diagnoses, treatments, prevention and caregiving. In this way, the healthcare industry will likely continue to create new markets as research and technology advance.

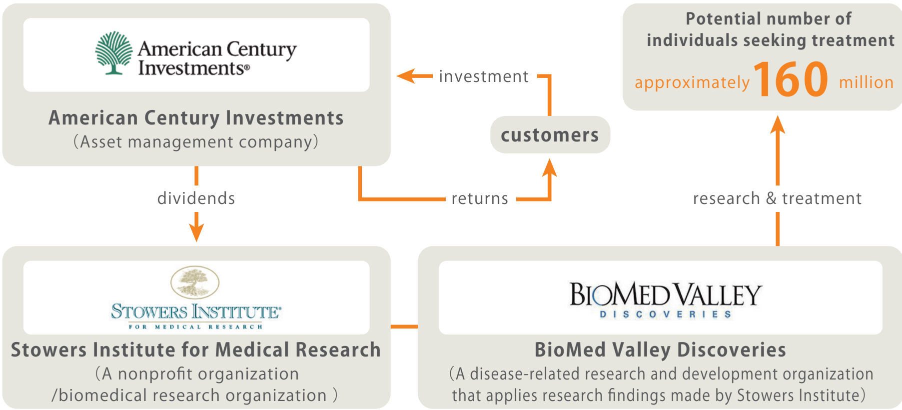
② History

May 2016, Nomura Holdings announced a strategic partnership with ACI, which has its own unique ecosystem known as the ownership model in the healthcare sector, revolutionizing the way companies contribute to society. The partnership combined this ownership model created by ACI with Nomura's strong sales channels, aiming to achieve both profitability and social impact.

Characteristics of the ACI Ownership Model:

- ACI uses stock dividends to support research conducted by Stowers Institute for Medical Research, its majority shareholder and home to one of the world's largest biomedical research funds.
- Stowers Institute employs over 550 experts, and seeks out innovative new cures, working in conjunction with BioMed Valley Discoveries, a disease-related research and development organization.
- The sum of dividends paid out from ACI to the institute totals USD 1.4 billion between 2000 and 2018.

Figure 27 ACI Ownership Model

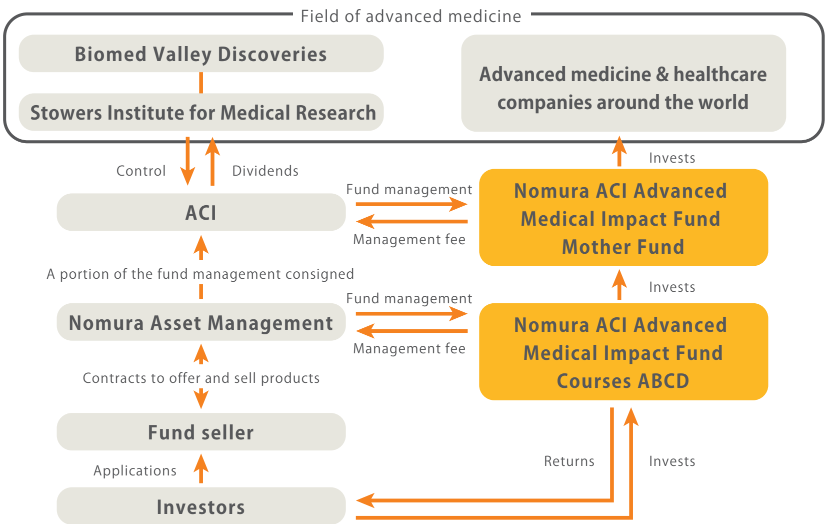


Source: Nomura Asset Management

③ Stakeholders

The implementation structure and interests of each stakeholder are outlined below. Note that "advanced medicine and healthcare companies" refers to companies within the pharmaceutical, biotechnology, medical appliances, or medical/healthcare service sectors that research and develop new advanced technologies or contribute to the supply or demand of advanced medical services.

Figure 28 Implementation structure



Source: K-three, based on public information
*Additional stakeholders such as investment trust management companies and auditors

Figure 29 Interests of stakeholders

Stakeholder	Role	Interests & expectations in the project
Investors	Investor	● Address issues in medicine by investing ● Economic returns
Nomura Asset Management	Fund Manager	● Promote impact investing ● Manage fund performance
ACI	Fund Manager	● Achieve economic returns and social impact ● Link to the Sustainable Development Goal 3 ● Contribute to the medical field through dividends paid to Stowers Institute

④ Approach to social impact

ACI looks to the Sustainable Development Goals (SDGs) in their impact investing practices. This portfolio was constructed to align with Goal 3 (SDG-3), "ensure healthy lives and promote well-being for all at all ages." Each stock in the portfolio must be tied to one of the impact themes corresponding to SDG 3, and is mapped out according to the defined targets as to their contribution.

Below are examples of the portfolio companies and their anticipated impact.

< Example 1 >

Purpose	Develop medical appliances, services and software that is productive and efficient, to be used in research, diagnostics and treatment.
Investee	Illumina, Inc.
Expected social impact	【 Effective medical appliances, services and more 】 Illumina develops and produces integrated systems to the analysis of genetic variation and function. The company's next-generation sequencing technology enabled the dramatic cost reduction of human genome sequencing from USD 10 million in 2007 to USD 1000 a decade later. Through cost reduction and speed enhancement, their contributions are anticipated to bring about improvements in biomedicine, research, and disease diagnostics and treatment.

< Example 2 >

Purpose	Innovative treatments for diseases including cancer
Investee	Intuitive Surgical, Inc.
Expected social impact	【 Innovative treatments 】 Intuitive Surgical develops, manufactures and markets industry-leading surgical products. Their *da Vinci* Surgical System, a robotic surgical system of which there are 4,528 units worldwide, has treated over 2 million patients in the last decade, for urological and gynecological conditions and other general surgeries. Their innovative products which enable minimally invasive surgery (MIS) are expected to reduce medical costs and the rate of infections, through 1) a decrease in blood loss; 2) enhanced visualization and access for surgeons; and 3) a reduction in hospitalization period.

< Example 3 >

Purpose	Access to medicine and medical services in both developed and emerging markets
Investee	Teladoc Health, Inc.
Expected social impact	【 Access to medicine and medical services 】 Teladoc Health is a telemedicine company that uses telephone and videoconferencing technology to provide on-demand remote medical care via mobile devices, the internet, video and phone through their platform Telehealth. In addition to enhanced convenience for patients, telemedicine decreases medical exam costs, and increases access to doctors for patients in remote areas. Nearly 1.7 million patients used Telehealth in 2017.

(3) Highlights

① Providing impact investing opportunities to individual investors

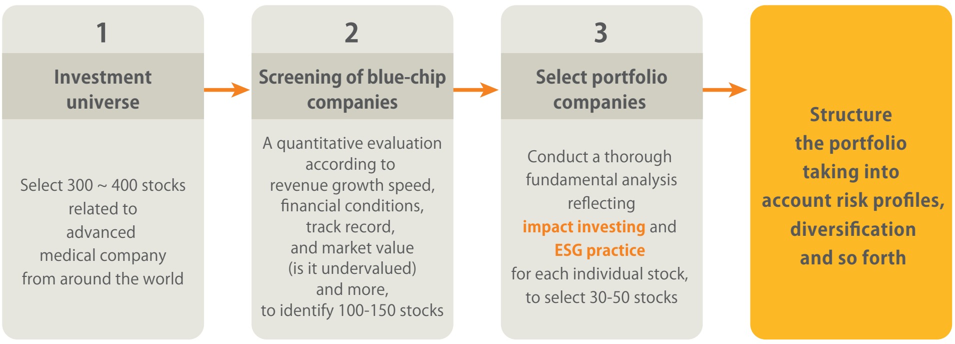
Traditionally, major impact investors have been financial institutions, venture capitals and angel investors. This fund is unique in that as a publicly offered investment trust, it enables individual investors to take part in impact investing, even with small amounts.

According to the Bank of Japan, the level of household financial assets at the end of 2017 was a record-breaking JPY 1.829 quadrillion (roughly USD 16.4 trillion). An influx of individual financial assets could potentially bolster the impact investing market. Moreover, while it is believed that individual investors have more diverse values compared to institutional investors, they often have less expertise to find investment opportunities that align with their values. This fund is notable as it offers an investment opportunity that is not solely focused on economic returns. Furthermore, this fund adopts the family of funds method, offering four different funds under the main fund, with varying dividend payout schedules and the option to currency hedge, addressing various investor needs.

② Unique portfolio structuring process

ACI's process in structuring the portfolio of the mother fund is as follows.

Figure 30 Portfolio structuring process



What stands out is the approach to impact investing noted in step ③. First, the fund establishes the four criteria listed below that are based on SDG-3 to "ensure healthy lives and promote well-being for all at all ages." The investee companies are then selected upon social impact evaluation against these four criteria.

1	Provides innovative treatments	The company provides innovative treatments such as those impacting cancer, mental disorders, and infant and child mortality rates.
2	Access to medicine and medical services	The company contributes safe, effective and reasonably priced medicines, and/or provides high-quality medical services or medicines in emerging and developed countries.
3	Solution for decreasing medical costs	The company contributes to the reduction of medical costs to facilitate better access to high quality medical services, and to safe and effective medicines and vaccines for all.
4	Effective medical appliances and services	The company develops or provides medical appliances, services and software that are more productive and/or more effective in order to drastically advance treatments of serious disease and illness.

③ Method of social impact measurement

ACI takes an integrated approach to the analyses of impact and fundamentals. While the social impact varies by investee, ACI concentrates on reduction of healthcare costs, number of persons impacted and expanded access to healthcare. Under this fund, unless such impact is met, a company is not selected for the investment portfolio, regardless of expectations of high economic returns. In addition to monitoring their investments through regularly-held meetings with portfolio companies, ACI actively participates in conferences related to their investments, engaging with medical experts to discuss the latest products on the market. Meanwhile, ACI sets long-term goals for the fund due to the fact that social impact takes time to achieve; however, the field of advanced medical industries is an especially fast-moving market, making social impact and fundamentals analyses/projections extremely challenging, and in turn, evaluations are also difficult. Presently, ACI provides a few assumed scenarios to countermeasure such difficulties.

(4) Key takeaways

① Potential entry of individual investors in the impact investing market

This fund opened the gates of impact investing to a large number of individual investors in Japan, garnering attention from overseas as a leading-edge case. It may eventually serve to popularize impact investing among individual investors.

② Collaboration with progressive overseas investors

The concept of impact investing is still new in Japan, and the market is lacking in financial products as well as expertise. By structuring this fund to utilize impact investing expertise from more advanced overseas markets, it potentially increases the options available to investors in the domestic impact investing market.

③ Impact evaluation that applies the SDGs

Oftentimes, while reviewing impact investment opportunities, consideration of desired social impact can be a lengthy process because of the various stakeholders involved. To evaluate and consider social impact, this fund applies the SDGs, a globally-recognized concept that is commonly and widely understood among investors, businesspersons and stakeholders around the world. Thus, this case could serve as a reference for future funds in its approach to impact evaluation.

❺-2 Multiple impact investments by Dai-ichi Life Insurance

This case study analyzes Dai-ichi Life Insurance's impact investing activities which began in 2017.

❺-2-1 Investment overview

Figure 31 Investment Overview

Fund name	Multiple impact investments through private equity (investments in privately held companies)
Fund establishment	2017
Fund size	Approximately JPY 2.5 billion (8 companies)
Investor	Dai-ichi Life Insurance Company, Limited
Expected social impact	To cause structural change in society through advanced technologies which improve quality of life and platforms that reduce medical costs.
Highlights	● The significance and merits of a large life insurance company entering the impact investment market ● Challenges and difficulties in entering the impact investing market from an operational perspective

❺-2-2 Fund details

(1) Investor

【 Dai-ichi Life Insurance Company, Limited 】

Established: 1902

Capital: JPY 60 billion

Main activities: A major life insurance provider in Japan, Dai-ichi Life Insurance is one of the top institutional investors in Japan with a total asset balance JPY of roughly 36 trillion. In addition to its commitment to enhanced stewardship activities, the company is also active in ESG investing.

(2) Investment portfolio

Figure 32 List of portfolio companies

Company Name	Amount invested	Company Overview	Expected Social Impact
Gojo & Company, Inc	JPY 400M	Microfinancing in developing countries	Improved access to financing in emerging countries
Spiber Inc.	JPY 1B	Research and manufacturing of next-generation synthetic bio-materials (such as spider silk)	Reduce environmental load (cutting greenhouse gas emissions)
CureApp, Inc	JPY 200M	R&D and provider of a treatment app for nicotine addiction treatment	Decrease in number of patients; longer, healthy life expectancy; reduction of medical costs
Crowd Credit, Inc.	JPY 100M	Offers loan-type crowdfunding services to developing country enterprises	Promote business activities in developing countries; job creation
SUSMED, Inc.	Approx JPY 100M	R&D of a smartphone app to treat insomnia	Decreased risk from insomnia-related side effects; reduction of medical costs
Meltin MMI Co.	JPY 300M	R&D of an avatar robot with the world's preemptive "most human-like hand" and related technologies	Decreased risk of workplace injuries in high-risk environments
MOLCURE, Inc	JPY 100M	Develops and provides the world's first antibody discovery platform	Shorten the development time of antibody drugs; reduction of medical costs
QD Laser, Inc.	JPY 300M	Develops and provides the world's first eyewear that employs state-of-the-art laser technology	Improved quality of life for patients with limited vision
TOTAL	Approx JPY 2.5B		

(3) Fund scheme

① Background

Dai-ichi Life Insurance Company, Limited, ("Dai-ichi Life") has a history of domestic-stock ESG fund management and of investing in renewable energy projects, but since it became a PRI signatory in November 2015, the company has been in the process of building a system for ESG integration.

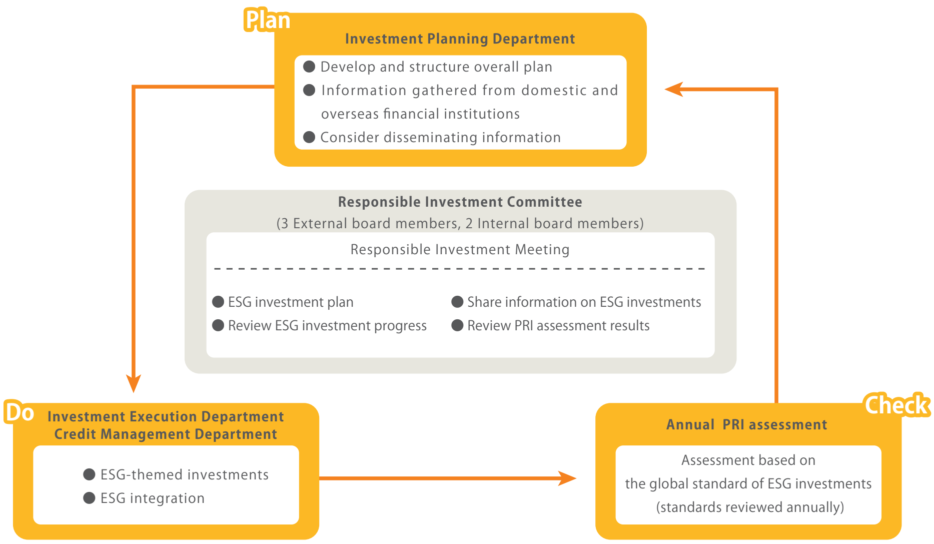
In 2016, Dai-ichi Life established a Stewardship Policy, positioning itself to become a social responsibility institutional investor that encourages sustainable growth of investee companies, as well as systematic integration of ESG investing, or the practice of pursuing both social good and financial returns.

In 2017, as society began to take notice of socially responsible investing, Dai-ichi Life set up ESG-themed investments within their ESG investment practices, effectively beginning their impact investing practices, which took into account impact measurement in their investment screening process. A motivating factor behind Dai-ichi Life taking a step further from ESG to delve into impact investing is that in addition to the potential for both social and economic returns, the company perceived the potential for such practices to lead to innovation in their core business, life insurance.

② Stakeholders

The implementation structure and roles of each stakeholder are outlined below. The Investment Planning Department takes into consideration social needs and internal policy on social contribution to strategize the overall direction. This overall direction then guides the impact investing decisions of the front offices and credit management office, within the bounds of ESG-themed investing. At bimonthly Responsible Investment Meetings, participants discuss company policy regarding ESG investments, review progress and share updates on projects. Last but not least, the company utilizes the PRI annual assessment which is the global standard of ESG investments to improve their internal process.

Figure 33 Stakeholders



Source: K-three, based on materials from Dai-ichi Life

The investment process in this case is as follows.

Figure 34 Social impact investment process

1 Primary screening

Determine what "social impact" potential investee can create
Confirm whether the created impact can be regularly monitored

↓

2 Meet with top management to confirm intent

Meet with top management of potential investee company to confirm whether there is strong determination to create the anticipated social impact

↓

3 Deliberation by the Responsible Investment Meeting

Determine the validity of desired social impact and monitoring methods from a third party perspective

↓

4 Obtain clearance to execute the investment

Investment Execution Department obtains clearance to invest based on the Responsible Investment Meeting's decision

↓

5 Report to the Responsible Investment Committee

Regular reports to the Responsible Investment Committee on investments executed

Source: K-three, based on materials from Dai-ichi Life

Venture investments, whether related to social impact or not, require a discerning eye in evaluating the skills and technologies a potential investee owns. As a life insurance company, Dai-ichi Life often chooses to invest in the areas of healthcare, biomedicine and fintech. Dai-ichi Life is able to achieve synergy from the discovery of innovations in these fields.

Dai-ichi Life does not require interviews or meetings with venture owners as part of their standard investment process. However, they do require such meetings in the cases of impact investing, as the company places heavy emphasis on an owner’s vision or passion. Dai-ichi Life also requires trackable success indicators as criteria for impact investing.

③ Approach to impact investing

At Dai-ichi Life, impact evaluation is conducted by the portfolio company, and achievements are monitored in an annual report. Success indicators can be either qualitative or quantitative, but to make monitoring less cumbersome, quantitative indicators are put in place whenever possible. Impact evaluations are not in the investment contracts, but as noted above, Dai-ichi Life meets with investees on multiple occasions and ascertains indicators for evaluation through such meetings.

Dai-ichi Life sets performance goals for economic returns, but in terms of social impact, the company does not set its own goals, rather considering whether they can align themselves with or share in the impact goals set by the investee candidate.

Below are specific cases and the social impact and monitoring methods set for each investment case.

< Case 1 >

Company name	QD Laser, Inc.
Company overview	● A spin-off venture from Fujitsu Ltd. ● Operates two key divisions, in laser device sales and laser technologies applied to visual information devices ● Laser eyewear projects images directly on to the retina. Regardless of diseases, low-vision patients with functioning retinas improve visual acuity with this groundbreaking product
Investment overview	Unlisted stock, JPY 300 million
Social impact	【 Improved quality of life for low-vision patients 】 By using this eyewear, low-vision patients who could not be previously helped by vision correction can see images. This leads to an expansion in activity range, pastime options, and an improvement in quality of life for low-vision patients.
Monitoring	【 Sales of laser eyewear devices 】 The units of laser eyewear devices sold as medical devices is tracked as an indicator of success.

< Case 2 >

Company name	MOLCURE, Inc.
Company overview	● Use artificial intelligence (AI) to design antibodies as antibody drug candidates, which are provided to pharmaceutical companies ● Shorten development cycle of drugs, find revolutionary new drugs
Investment overview	Unlisted stock, JPY 100 million
Social impact	【 1. Shorten the drug development cycle 】 A shorter antibody development cycle leads to less time spent to develop antibody drugs, contributing to the treatment of incurable or serious diseases. 【 2. Medical cost reduction 】 R&D costs at pharmaceutical companies are reduced through use of Molcure, bringing down costs of antibody drugs as well as medical fees.
Monitoring	【 1. Scope of development time shortened for a set number of antibodies developed at a pharmaceutical company 】 To monitor contributions, "the amount of time spent to develop antibodies conventionally" minus "the amount of time Molcure spent to develop the antibodies" is tracked. 【 2. R&D costs reduced at pharmaceuticals 】 Monitors the "number of contracted projects" and "R&D costs saved per project" to track contributions.

(4) Highlights

① The significance and merits of a large life insurance company entering the impact investment market

Compared to conventional investments, the due diligence process required for each impact investing case tends to take longer, and yet be a smaller investment. However, in addition to the economic returns and social impact expectations, the potential innovations that could be brought about in the insurance industry are significant. For example, some possibilities are the creation of new insurance products, and combining technologies or products that prevent dementia with an insurance product. At Dai-ichi Life Insurance, social impact investing is viewed as a new area in which the company can apply their expertise in insurance, healthcare and fintech.

Another significance of insurance companies conducting social impact investments is in their ability to make longer-term investments compared to other investors. The need for quick exit strategies is low under the insurance business model, and they can "wait" for social impact to be achieved.

② Challenges and difficulties entering the impact investing market from an operational perspective

Before making their first social impact investment, Dai-ichi Life Insurance spent a considerable amount of time and effort to define social impact investment and its meaning within the company. Of the numerous definitions provided by organizations around the world, Dai-ichi Life reviewed some 20 or so definitions and studied the subtle differences in nuance among them to formulate their own definition. As part of their impact investing process, the company also spends time to derive expectations of social impact from each investment. More specifically, the front office staff who are well-informed on the potential investee and the Investment Planning Department hold recurring discussions on the appropriate success indicators, at times sitting down with the owner of the investee to determine what it should be. Dai-ichi Life may even be the one to offer potential outcomes or success indicators, if the investee does not present any such ideas. Monitoring is time consuming, but by limiting the occasion to once a year, and by applying quantitative indicators, Dai-ichi Life attempts to shorten the amount of time spent on monitoring project outcomes.

Dai-ichi Life intentionally avoids setting targeted investment balances or numbers of investees, due to the belief that an honest approach to social impact is a better one. The pressure to meet target numbers is seen to serve as an incentive to invest in businesses that may not offer much social impact.

This kind of impact investing was achievable at Dai-ichi Life because of a strong commitment from upper management, and consensus that was achieved at an operational level, enabling the company as a whole to engage in impact investing. First and foremost, the president is a direct participant in the Ministry of the Environment ESG roundtable, which is an indication of the company's commitment to ESG investing. In addition, the most recent head of the Investment Planning Department was a board member and an ardent purveyor of impact investing. How a company's key decision makers engage in projects is critical in any undertaking. Moreover, by holding bimonthly Responsible Investment Meetings, the Investment Planning Department facilitates a company-wide understanding towards ESG investing at a company-wide level, helping to build a consensus around impact investing, which is a more time and effort-consuming practice, at the operational level.

(5) Key takeaways

① Investments structured around the core business

Life insurance is by nature a financial product which requires long-term investment. For a company that has built its core business around such long-term investment, the need to "wait" for impact creation can be viewed as congenial to the business. It could also be viewed as an efficient and effective investment when seeking potential synergy with its core life insurance business.

② Structuring a sustainable investment and measurement process

Impact investing faces challenges in the cost and effort required relative to the size of investments; however, Dai-ichi Life also views the benefits of economic and social returns, as well as synergy with its core business. This comprehensive point of view of considering cost benefits during the planning phase before implementation could be effective when resources are limited. For instance, monitoring success indicators once a year rather than multiple times could bring down the costs associated with the task.

❺-3 Region-wide SIB and crowdfunding for the promotion of colon cancer screening in Hiroshima Prefecture

❺-3-1 Investment overview

This case study analyzes the case of an implementation of a pay-for-success contract for the colon cancer screening promotion project by Hiroshima prefecture and six local governments, whereby funds were raised through a crowdfunding model from individual investors.

Figure 35 Investment overview

Project name	Region-wide SIB and crowdfunding for the promotion of colon cancer screening in Hiroshima Prefecture
Planned project period	Three years from 2018 to 2021: October 2018 to August 2019: Promotion of cancer screening April 2019 to March 2021: Evaluation period
Investment scale	Approximately JPY 22 million
Investment organizations *roles undisclosed	Individual investors (Crowdfunding brokered by Music Securities, Inc.) Japan Social Impact Investment Foundation (SIIF) The Hiroshima Bank, Ltd. Mizuho Bank, Ltd.
Investee	Cancer Scan Co., Ltd.
End payor	Hiroshima Prefecture and six cities in Hiroshima (Takehara, Onomichi, Fukuyama, Fuchu, Miyoshi and Shobara cities)
Intermediary	K-three Inc.
Expected social impact	Early detection of cancer to reduce deaths by cancer and improve quality of life for citizens in the prefecture
Highlights *Noted in later pages	● Utilize crowdfunding to provide the opportunity for SIB investment to a wide number of individual investors ● A prefecture-wide collaboration model SIB comprised of the prefectural government and six local governments

❺-3-2 Investment details

(1) Investors

【 The Japan Social Impact Investment Foundation (SIIF) 】

① Established: March 2017 by the Nippon Foundation

② Endowment: JPY 3 million

③ Main activities: SIIF seeks to nurture a social impact investment ecosystem that will support Japan's sustainable development, increasing the number of domestic social impact investors and impact capital available for public benefit, to achieve further efficiency and scalability in the market

【 The Hiroshima Bank, Ltd. 】

① Established: May 1, 1945

② Capital: JPY 54.573 billion

③ Shareholder: Japan Trustee Services Bank, Ltd. and others

④ Main activities: Commercial banking

【 Mizuho Bank, Ltd. 】

① Established: July 1, 2013

② Capital: JPY 1,404 billion

③ Shareholders: 100% subsidiary of Mizuho Financial Group, Inc.

④ Main activities: Commercial banking

【 Music Securities, Inc. 】

① Established: November 26, 2001

② Capital stock: JPY 100 million

③ Main activities: 【 Securitization 】Operation of impact investment and micro-investment platform "Securite", origination and marketing of funds

(Financial instrument services provider engaged in Type II financial instruments Number 1791 by the Kanto Local Finance Bureau (Kinsho) No. 1791)

④ Others: Crowdfunding services "Securite" is made available for individual investors (Securite SIB fund homepage: https://www.securite.jp/sib/)

(2) Investment portfolio

【 Cancer Scan Co., Ltd. 】

① Established: November 19, 2008

② Capital: JPY 10 million

③ Main activities: Operational support to health and wellbeing projects utilizing marketing and technology

1. Cancer screening promotion programs through SIBs (pay-for-success model)
2. Promotion programs for specific health examinations
3. Healthcare costs analysis utilizing tools such as the National Health Insurance Organization database "Kokuho Database" (KDB)
4. Prevention program for severe diabetic nephropathy
5. Intervention program for proper health exams and medication
6. Training programs geared for regional government officials

(3) Investment Scheme

① Background

There are presently more than 370,000 deaths a year in Japan due to cancer, the leading cause of death in the country since 1981. Certain cancers have been found to be effectively detected and treated early, and the national government conducts programs geared towards regional governments to promote cancer screenings, but have yet to reach the targeted rate of 50% of the population.[40] Reducing the mortality rate caused by cancer is a serious policy issue faced by both regional and national governments, and Hiroshima Prefecture had taken various measures in the past to attempt to increase the rate of residents who underwent screenings. Colon cancer was made the focus of this project, specifically because in the case of colon cancer, early detection has been known to have significant impact on the 5-year survival rate and related medical costs compared to other cancers, and because the City of Hachioji in Tokyo had already implemented an SIB program for this type of cancer.

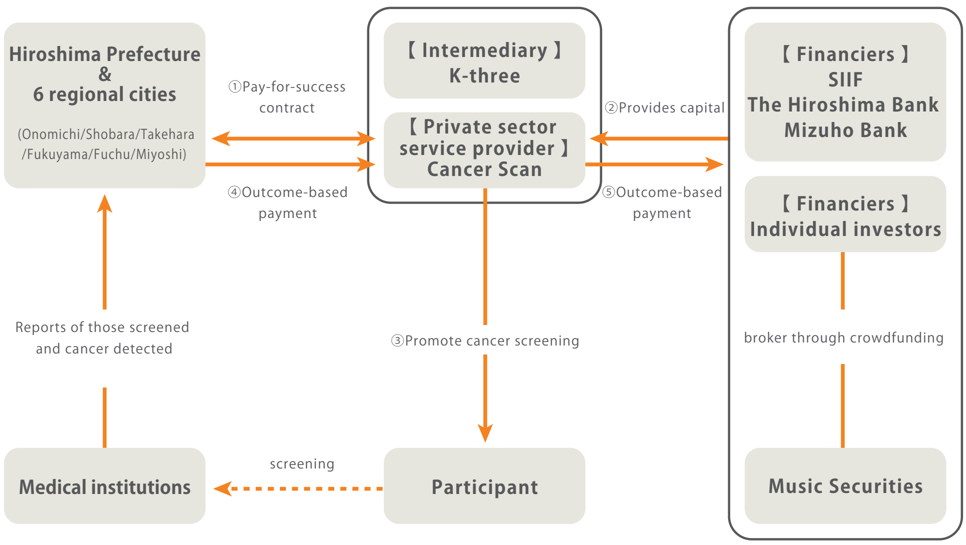
② History

K-three supported the implementation of a wide-region collaboration model SIB in the healthcare sector, as part of a 2017 Ministry of Economy, Trade, and Industry (METI) program to promote the new industrial structure made possible by healthier longevity. Hiroshima Prefecture and six cities within Hiroshima applied the SIB model to advocate colon cancer screening to residents. In 2018, screening exams were individually recommended to national health insurance subscribers. The aim of this intervention program was to improve the rate of residents who undergo screenings for early cancer detection and ultimately, a decrease in mortality rate.

③ Stakeholders

The implementation structure and interests of each stakeholder are outlined below.

Figure 36　Implementation structure



Source: K-three[41]

40 Ministry of Health, Labour and Welfare (2016) "Basic Survey of Living Conditions"
41 K-three news release (2018)

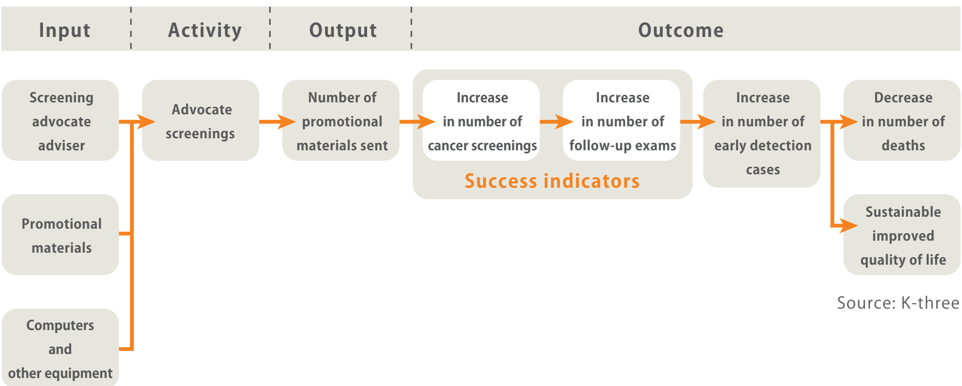
Figure 37 List of stakeholders and their roles

Organization Name	Role	Roles/responsibilities in the project
SIIF	Investor	Provides risk capital to promote impact investing in Japan
Mizuho Bank	Investor	Funding the project with the goal of solving a social issue
The Hiroshima Bank	Investor	Funding the project with the goal of solving a social issue
Individual investors	Investor	Funding the project with the goal of solving a social issue
Music Securities	Investment broker	Act as a broker to bring individual investor financing through the company's platform Securite
Hiroshima Prefecture and 6 local city governments (Takehara, Onomichi, Fukuyama, Fuchu, Miyoshi and Shobara)	End payors	Improve residents' quality of life and lower mortality rates through early detection of cancer. Pays according to the success rate of the project.
Cancer Scan	Service provider	Oversee and operate a business which promotes colon cancer screening.
K-three	Intermediary	Evaluate the project; construct a financial model and overall structure; coordinate among the stakeholders i.e., public administration, service provider, investors

④ Approach to Social Impact

For this case, expected outcomes were categorized based on the logic model outlined below. The categories are "Decrease in number of cancer deaths," "Sustainable improvements in quality of life," "Increase in number of early cancer detection cases," "Increase in number of follow-up exams," and "Increase in number of cancer screenings." Furthermore, as a pay-for-success model was selected for this case, success indicators were set as "number of cancer screenings" and "percentage of screenings that led to follow-up exams."

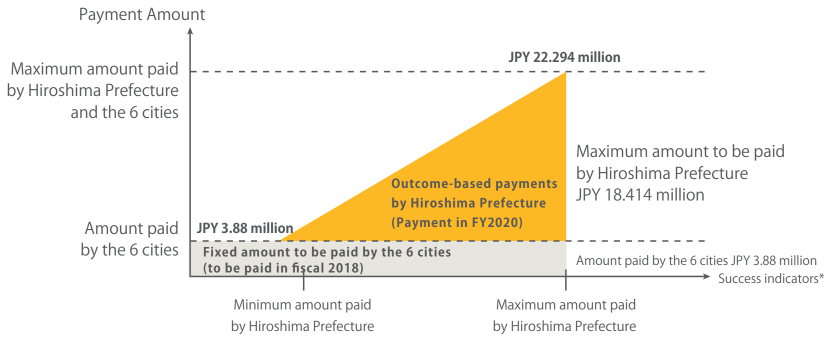
Figure 38 Logic model for this case



Source: K-three

The payment amount, which is tied to the success indicators, is allocated in the budget at a maximum total of JPY 22.29 million. Of that total amount, Hiroshima Prefecture will pay up to JPY 18.41 million according to the rate of success achieved for the two indicators, “number of cancer screenings” and “percentage of screenings that led to follow-up exams” in fiscal 2020. The six cities will pay JPY 3.88 million in fiscal 2018, regardless of the outcome.

Figure 39 General payment flow from the municipalities



*Success indicators are "number of colorectal screenings" and "number of specialist exams"

To provide a breakdown of the above total, the impact investments in the project comes out to roughly JPY 15.96 million, of which JPY 12.08 million comes from investment-type crowdfunding with returns of roughly JPY 1.07 million, and loans of approximately JPY 3.88 million. The remaining balance will be covered by the service provider, which shares in the risk alongside the financiers.

(4) Highlights

① Utilize crowdfunding to provide an SIB investment opportunity to a wide number of individual investors

SIBs are structured on the premise that a business solves for a social issue and that an appropriate success measurement device is in place. While it is often said that SIBs are attractive for individual investors with high social awareness, in the past there were no opportunities for individual investors in the general public to allocate their investments to social impact because of the complicated financing schemes or brokerage fees involved.

In this case, Music Securities utilized their impact investment platform Securite to provide an investment type crowdfunding opportunity to individual investors in the general public.[42]

To draw in individual investors, much care was placed on giving potential investors thorough information regarding the significance of and the mechanisms of SIBs, as well as establishing a senior and subordinate debt structure. The fund certainly pursues social impact, but to guarantee a certain degree of economic return, SIIF assumed the position as the most subordinate debtor. The party which assumed the highest risk was the service provider, who did not fundraise for the project, but invested their own funds, constructing the project in a way that offers the highest incentive for the project to succeed. This serves to minimize risk on the part of the individual investor and counterbalance the difference in access to information, and such factors may have contributed to its success in fundraising from individual investors.

42 Securite (2019) “SIB for the promotion of colon cancer screening in Hiroshima Prefecture” https://www.securite.jp/fund/detail/4831

② A prefecture-wide collaboration model SIB comprised of the prefectural government and six local governments

Typically, SIB implementation requires a certain level of intermediary costs regardless of the business scope, due to the fundraising and success measurement activities required. Thus, project scope tends to be large to absorb such costs, making SIBs inaccessible to municipalities that are sparsely populated and only require small scale projects. In addition, as the demand from individual investors for impact investment opportunities rises, it is important for the projects to be greater in scale to achieve greater impact and attract more individual investors. This case derived a wide-region collaboration model, specifically to address the issue of project scale. The aforementioned intermediary costs as well as shared costs and tasks among the municipalities could be condensed for efficiency, enabling the SIB to be implemented in regions with a population limited to tens of thousands of residents, suggesting the potential scalability of these projects. However, due to the small population of each participating region, the actual project scale was similar to the SIBs of Hachioji City and Kobe City in 2017.

Regardless, standardizing the models (such as business, evaluation and financial models) within a specific area of business made the wide-region collaboration possible and succeeded in illustrating the potential to achieve scale.

③ Demonstrated that an SIB from one region could be applied to another region, in a horizontal expansion

This project referenced the increases in colon cancer screening rates, and rates of people who underwent follow-up exams within the SIB by Hachioji City to create the pertinent models (including but not limited to business, evaluation and financial models). Though some portions were revised (e.g., changing the number of success indicators from three to two), much of the reference model was applicable, such as the business model and impact on the public budget, serving to demonstrate that the SIB case from one region could be expanded to a different region.

The 1,741 local municipalities around the country easily share many common social issues. The colon cancer screening project in this SIB suggests there is potential to apply the prevention of severe diabetic nephropathy program to other regions across the nation, as well as other future projects.

(5) Key takeaways

Below are the key takeaways from this case that are presented for the furtherance of SIBs.

① Measures to achieve scale

Aside from vertically-integrated, wide-region collaborations of prefectural and local governments as seen in this case, there are many potential measures to achieve scale. Some examples are horizontally-integrated wide-region partnerships; multi-year implementation projects; projects implemented by municipalities with larger populations or by central ministries; implementation for infrastructure or facilities or related areas; and working with flexible budget structures that disregard existing budget systems. Overseas, there are projects in the scope of several hundred million to several billion yen which apply one or more of the measures named above, and similar discussions are now taking place in Japan.

Figure 40 Measures to achieve scale

Type		Measure for achieving scale	Example
Wide region	1	Vertically-integrated wide-region collaboration project	Collaboration among the government offices of Hiroshima Prefecture and six local municipalities
	2	Horizontally-integrated wide-region collaboration project	Collaboration among Cities A, B and C
Project scope	3	Multi-year implementation project	A 3-year project from 2019 to 2021 (not including time required for evaluation)
	4	Larger municipalities or central ministries-led projects	Measures for the Prevention of Repeated Offences by the Ministry of Justice
Field	5	Implementation to infrastructure or facilities	Management and construction of disaster prevention facilities and cultural facilities
	6	Implementation to existing businesses	Existing businesses or projects rather than establishment of new ones
Program	7	Flexible budget structure	Budgets structured not around budget or business precedents, but on future impact implementation will have on government budgets

Achieving scale is important to draw in more individual investors who are seeking investment opportunities that address social issues. However, in the more advanced global impact investing market, the current challenge is creation of bigger impact. Even in the United States, where 19 pay-for-success (PFS) projects have been implemented totaling some billions of yens in size, such PFS projects account for merely 1% of the overall budget,[43] and legislation is now underway to support outcomes-based financing for the creation of greater impact.

The SIB model combines "pay-for-success contracts between government and service providers" and "outcome financing," significant in its potential to achieve greater social impact in shorter term. Though SIBs are still new in Japan, in cases where they are likely to be the most appropriate approach, implementers should pursue the creation of greater positive social impact by considering the kinds of measures noted here and achieve greater project scale.

[43] CONGRESS.GOV (2017) "S.963 - Social Impact Partnerships to Pay for Results Act" (SIIPRA)

❻ Insights from the Current Social Impact Investment Market

As explained in this chapter, the Japanese impact investing market grew 4.8 times in size compared to 2017 in terms of investments. Beyond investment balance, the findings also suggest that a portion of the hidden potential investors as identified in the 2017 findings, have become aware of impact investing.

What often arose during interviews during this survey was the challenge in evaluating impact investments. There were several cases in which impact was considered at the time of investment, but not enough to qualify as an impact investment case. Factors for this varied from problems in structuring the investment screening process to a lack of knowhow with regards to social impact evaluation, but the common issue faced was the lack of information which exemplified best practices, whether through case studies or occasions to come across such intel.

On the other hand, here are some unique measurement methods being implemented by current impact investors.

Figure 41　Creative evaluation methods

① Studying the cases of advanced overseas impact investors
② Applying the SDGs
③ Assisting the evaluation process as a part of hands-on support to investees
④ Setting up an advisory board comprised of outside pundits
⑤ Business alliance with a leading impact investing organization
⑥ Collaborations with outside experts to obtain feedback from third-party certifiers

The surveys, interviews and case studies pointed to the following measures that could help impact investing take root and further expand in Japan.

Figure 42　Measures and expectations moving forward

① Institutionalization for impact investing promotion
② Leadership by top management
③ Effective response to growth in social demand
④ Development of skilled experts to measure impact

① Institutionalization for impact investing promotion

In terms of national and regional government regulations, some possible measures include mandating the allocation of a set portion of investment lending to social impact, or aggressively implementing impact investing in public investments. Also relating to ④, the development of skilled labor to measure impact, establishing standard methods of impact investing could effectively bring down execution costs, and lead to the popularization of impact investing. Global players such as IMP are currently beginning to explore standardization and observing such developments closely could provide further insight on the matter.

② Leadership by top management

The fact that social and environmental impact creation tends to manifest in the mid-long term and only top management can make the decision to wait for impact to manifest may be why there is a sense that awareness and understanding from the head of an organization is necessary. Furthermore, the case study indicates that to pursue social impact within an organization, consensus among the staff responsible for executing the project(s) is critical, which can only be achieved through commitment at the top levels of an organization.

③ Effective respond to growth in social demand

Regarding stakeholder interest and engagement, apart from institutional investors such as pensions and insurance companies, individual investors may also serve to apply pressure on contractors to measure impact. As for concrete ways to indicate interest, an institution which hands out awards to successful impact investing cases could be effective. During interviews conducted in this survey, many fund management companies voiced they were considering taking on impact investing more significantly, because they saw a clear growth in demand for impact investing from asset owners. Thus, it is believed that interest and engagement from stakeholders is on the incline.

④ Development of skilled experts to measure impact

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

This chapter looks at themes in the Japanese impact investing market which have not yet gained momentum but which could soon become a major influential factor in market expansion. Here, they are explored in conjunction with impact investing.

Figure 43 List of themes

No.	Themes	Overview
1	Impact investing and Impact measurement	A study of the importance of impact measurement and the various measurement methods used overseas
2	Impact investing and The SDGs	A study of the conceivable influence the SDGs have on impact investing as a common language for investors and enterprises
3	Impact investing and Advanced technology	An introduction to the characteristics of blockchain technology, and a study of its influence on impact investing

❶ Impact Investing and Impact Measurement – The importance of impact visualization

Ambiguity remains in the definition of the term social impact investing. A contributing factor to this is the variety of ways investors perceive impact. There are broadly three approaches to social impact: how impact is perceived before and after an investment; whether there is intent to achieve social impact; and whether the social impact can be measured.[44] This report takes all three approaches into strong consideration defining impact investing to be the practice of investing with the intent to achieve impact and executed in a way that enables some method of impact measurement. The importance of "intent" likely needs little explanation. Without a requirement of intent to achieve impact, investments with other various purposes could be included into social impact investing. The reason measurement is highly valued is because intent without measurement carries the risk of "impact washing" or the practice of adopting the label for appearance's sake. Thus, to preserve the fidelity of the practice, actual social impact achieved must be ascertained. Because of these merits, globally, measurement has become increasingly important alongside intent. Moreover, social impact management is also on the rise, in which a business aims to lessen negative social impact and increase positive impact. Likewise, impact management is also growing in significance in terms of impact investing, not to mention that some consider impact management a prerequisite for valid social impact evaluation.

[44] Höchstädter, A.K. & Scheck, B. J Bus Ethics (2015)

A major trend is the Impact Management Project ("IMP"), a global network of investors which promotes impact measurement and impact management. The IMP is a network which "brings together leading global organizations in an initiative to provide coherent and end-to-end 'rules of the road' for impact management and measurement."[45] It began around 2016 in the UK, and now brings together more than 2,000 organizations worldwide. In September 2018, the IMP started a new partnership with the UNDP, the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD), PRI and other leading global organizations. This network was established among increasing demand from investors and enterprises alike for information on impact measurement and management. Such knowhow and methods are mostly fragmented according to region and individual cases, and the IMP is now seeking to build a global consensus and create standards. If stakeholders across the value chain can understand and report on their performance using a 'generally accepted' approach, it will be easier to work together to achieve common goals like the SDGs, facilitate the flow of more capital into the space, and prevent any attempts at 'impact-washing'.

Figure 44 Categories of impact investing[46]

	Investor's contribution	IMPACT GENERATED BY INVESTEES (ASSETS, BUSINESSES)		
		Act to avoid harm	Benefit stakeholders	Contribute to solutions
1	Signal that impact matters	E.g. Ethical bond fund	E.g. Positively-screened /best-in-class ESG fund	E.g. Soverign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects
2	Signal that impact matters + Engage actively	E.g. Shareholder activist fund	E.g. Positively-screened/best-in-class ESG fund using deep shareholder engagement to improve performance	E.g. Public or private equity fund selecting and engaging with businesses that have a significant effect on education and health for underserved people
3	Signal that impact matters + Grow new/undersupplied capital markets	E.g. Anchor investment in a negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability, access to clean water and sanitation
4	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets	Investment archetype not widely observed	Investment archetype not widely observed	E.g. Private equity fund making anchor investments in businesses that have a significant effect on income and unemployment for underserved people
5	Signal that impact matters + Grow new/undersupplied capital markets + Provide flexible capital	Investment archetype not widely observed	Investment archetype not widely observed	E.g. Below-market charity bonds, or an unsecured debt fund focused on busineses that have a significant effect on employment for underserved people
6	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	Investment archetype not widely observed	Investment archetype not widely observed	E.g. Patient VC fund providign anchor investment and active engagement to businesses that have a significant effect on energy access for underserved people

45 IMP impactmanagementproject.com (Accessed on January 1, 2019)
46 IMP https://impactmanagementproject.com/impact-management/how-investors-manage-impact/ (Accessed on January 1, 2019)

The IMP further classifies impact goals (x-axis, three levels) and strategies investors use to contribute to the impact goals (y-axis, six levels), categorizing them into 18 different impact classes. These impact classes are not intended as a replacement for progress towards 'globally accepted' measures that could enable the impact of individual investments to be compared. Instead, impact classes offer an immediate and complementary solution for differentiating the type of impact that investments have, even when very different measurement approaches are used. Example cases of each of the 18 impact classes can be viewed on the IMP homepage.[47]

The methods of impact measurement and management are currently unstandardized, and the majority of existing impact investment cases in Japan have not been executed with social impact management in mind. However, from the standpoint of solving social issues and beneficiaries of the projects, impact management should be required for the pursuit of maximum social impact. Though there are no limitations on the methodology to impact management, there do exist a few key consideration points. Of the four steps generally observed in the social impact evaluation process, that is, plan, measure, analyze, report and apply, this study focuses on two points, 1) planning, in other words what outcomes and indicators are established and 2) reporting and application, or how the results will be disclosed and applied.

Regarding the first point, planning is most critical in social impact management. Before establishing outcomes and indicators, the "who" and "what" must be considered. The "who" as in who determines the outcomes and indicators, could be investors, service operators, third party organizations, or a discussion among some combination of these parties. As for the "what," this is often influenced by who the determining party is and decided in one of a few ways: without a specific reason; through separately created logic models or other theories;[48] and by selecting standardized indicators.[49] Furthermore, there are two types of potential indicators, subjective and objective. Examples of the former are happiness or secureness, and for the latter, numbers that are consistent regardless of the evaluator, such as number of hospitals or blood pressure values.

Which indicators are selected varies according to the investors' mindset, type of investment or type of impact pursued. Where the risk lies in this variation is when an organization establishes outcome expectations and indicators without applying theories, understanding grounds for validities, or any knowledge of impact measurement. One major downside to such occurrence is the risk of "impact washing," where only preferential parameters are extracted for impact measurement. So long as there are no standardized outcomes or indicators in place, the ideal approach is for various stakeholders, especially the investors and service providers, to discuss what the intended goals are, apply universal terms such as theory models in the decision process, and select indicators with high validity. Another possible method is to utilize new technologies, such as blockchain, to prevent the falsification of data.[50] Also interesting to consider is Acumen's Lean Data™ approach. Lean Data™ is a low-priced measurement method that collects data from the end user via telecommunications tools such as SMS and telephones, specifically focusing on the poor. Through this approach, pitfalls such as solely extracting desirable data from surveys or "cream-skimming" survey respondents for future performance measurements can be avoided. Moreover, when the participants lack insight into impact measurement, seeking advice from experts is preferable from the perspective of solving for social issues as well as the beneficiaries.

47 IMP https://impactmanagementproject.com/impact-class-catalogue/ (Accessed on January 1, 2019)

48 Logic models are hypothesized descriptions of the chain of causes and effects, from input to output to outcome. The model can refer to both a diagram and the method itself.

49 Some examples include IRIS and GIIRS

50 See Chapter 3 "Impact Investing and Advanced Technology – what blockchain has to offer" for more

As to the second point of reporting and application, to disseminate impact investing while avoiding confusion, and for investors and enterprises to work together to achieve positive social impact, they must use somewhat standardized evaluation and reporting methods. Under current circumstances where standards are lacking, direct conversations with multiple stakeholders and highly transparent reporting are necessary.

Most importantly, investors should share the beneficiaries' viewpoint, have an investment philosophy, and strive for non-superficial impact creation. It is also critical for investors to be aware of the risks of impact washing or inefficient use of funds, apply measurement tools such as insights and technology, and gather highly valid and transparent data. What is desired is the proliferation of impact investment which practices impact measurement and impact management.

❷ Impact Investing and the SDGs – A common language for financiers and recipients

The Sustainable Development Goals (SDGs) are a collection of global goals for the year 2030, set unanimously in September 2015 by the United Nations General Assembly. Aiming for inclusive and sustainable economic growth that does not come at the cost of social and environmental wellbeing, it can be said that both the SDGs and impact investing share the common vision of a safer, healthier and more resilient future for all living beings, in the present and future.

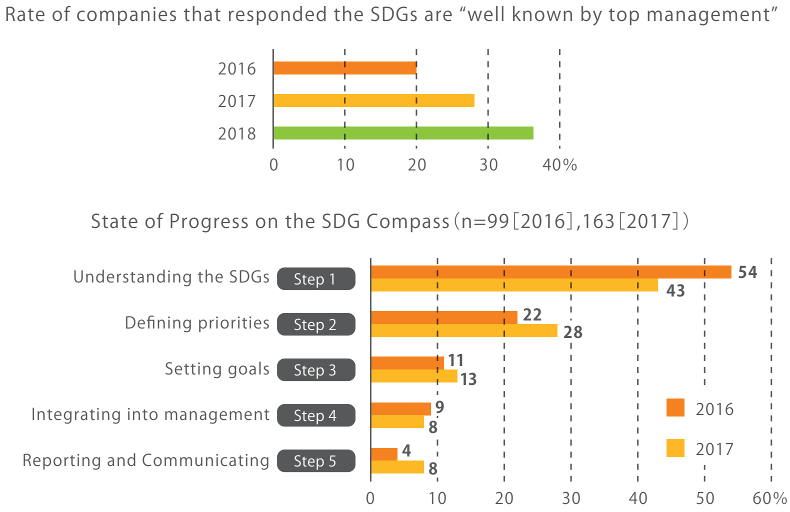
Figure 45 The SDGs

The SDGs are a collection of 17 clearly defined goals and 169 targets to be achieved by 2030. Not only does the overall vision resonate with the impact investing space, but the SDGs have also gained a worldwide consensus, creating the potential for them to foster communication between the "financiers" (the investors) and the "recipients" (the enterprises) as a common language between the two parties as it paints a vivid picture of what the world should look like in 2030.

The SDGs have steadily begun to take root among enterprises, as witnessed in the SDGs awareness survey[51] results in the chart below. The number of respondents who replied that the SDGs are "resonating with upper management" has grown from 20% in 2015, to 28% in 2016, and 36% in 2017, and will likely continue its upward trajectory. Similarly, regarding how far companies are in strategically incorporating the SDGs, the rate of those who selected Step 1 "Understanding the SDGs" declined (54% in 2016 to 43% in 2017), and in turn, the rates of those who selected Step 2 "Defining priorities of social issues" and Step 3 "Setting goals" rose, from 22% to 28%, and 11% to 13%, respectively. In this manner, the SDGs are gradually becoming a shared "common language" among enterprises that show awareness towards a sustainable future.

51 Institute for Global Environmental Strategies (IGES) and the Global Compact Network Japan (GCNJ) (2018) "SDGs and Business for the Future – Actions by Private Companies in Japan"

Figure 46 The SDGs awareness survey



Source: K-three, based on reports by IGES/GCNJ

However, for the SDGs to truly make the world a more sustainable place, the language still needs to be better understood and applied. As of now, the colorful logos of the 17 goals have taken on a life of their own, but quite often the goals are simply tacked on to existing activities or businesses, creating two issues.

First, the original English title of the SDGs is "Transforming our world: the 2030 Agenda for Sustainable Development." From this, we understand that without transformation, there cannot be a sustainable world. Tacking on the goals to existing activities or businesses will not bring about change, and in no way contribute to the SDGs.

In addition, simply stating, "this activity contributes to Goal X" does not bring the world closer to achieving the goals, but rather risks the opposite effect of taking the world backwards by causing negative impact, such as furthering the wealth gap. For example, if a company was to focus solely on Goal X and publicize the results achieved through related activities, and yet in reality, they caused unintended negative impact in a different social or environmental aspect, did the company contribute to a more sustainable growth and wellbeing of the world? Should investing in such an enterprise be considered "impact investing"?

The 17 goals and 169 targets uniquely identified under the SDGs are specific, clear and comprehensive of all social and environmental issues. The issues are intertwined, not easily separable, and several of them are not generally advocated for. In other words, if an activity is made to impact Goal X, it could also be affecting the other goals, including goals that have largely gone unnoticed thus far. It could be argued that only by approaching the SDGs' goals and targets with a 360-degree view on the impact a business has on all social and environmental issues, transforming oneself to achieve greater positive impact while also minimizing negative impact, can one state that they are contributing to the SDGs.

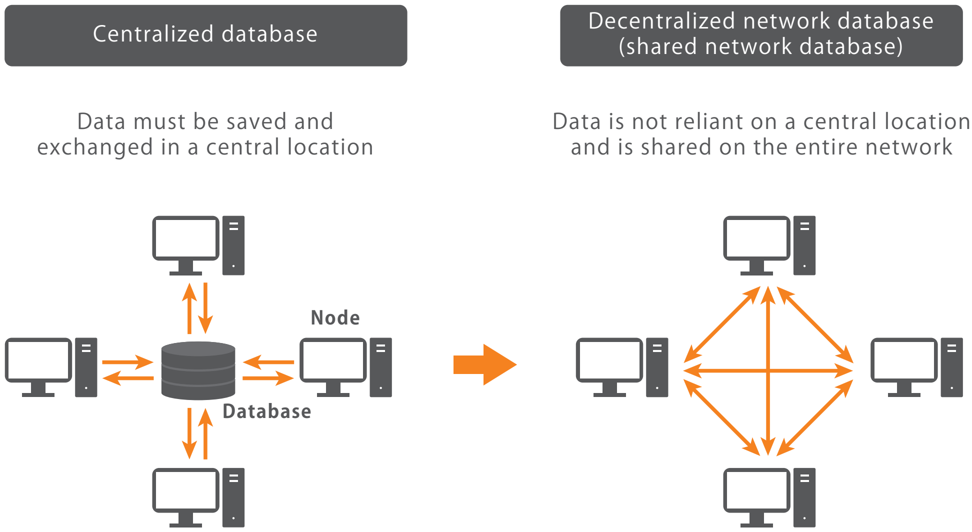
As a shared common language between investors and enterprises envisioning a sustainable world, the SDGs have the potential to further promote impact investing. As in the case of SDG Impact, the SDGs are being applied to foster investing in achieving the SDGs in other parts of the world. If investors look closely at the way the SDGs are used as a language to find, select and aid enterprises that create true social impact, they might bring the world closer to becoming a sustainable place.

❸ Impact investing and Advanced Technology – The potentiality of blockchain

An introduction to what characterizes blockchain technology, and a study of its influence on impact investing

Blockchain technology, hailed as one of the greatest inventions since the Internet, is slowly being utilized in the impact space. Blockchain is a shared-network database, whereupon an exchange of values can occur.

Figure 47 Conventional database systems and shared network database systems



One of the greatest achievements of blockchain is the establishment of trust in the digital realm, which is comprised of the following three elements, according to a report by the Stanford Graduate School of Business "Blockchain for Social Impact: Beyond the Hype."[52]

① Identification – who's who

Using digital signatures, in which each user is given a set of two digital codes, a private key and a public key.

② Ownership – who owns what

Cryptographic prevents data manipulation. This allows blockchains to create tamper-proof records, leading to protection of ownership.

③ Verification – what's true – without the expensive middleman

Blockchain uses what is called a distributed consensus, whereby transactions can be verified without an intermediary. This is the key reason blockchains can lead to lower costs.

52 Galen D., Brand N., Boucherle L., Davis R., Do N., El-Baz B., …, Lee J (2018) "Blockchain for Social Impact: Moving Beyond the Hype", Stanford Graduate School of Business

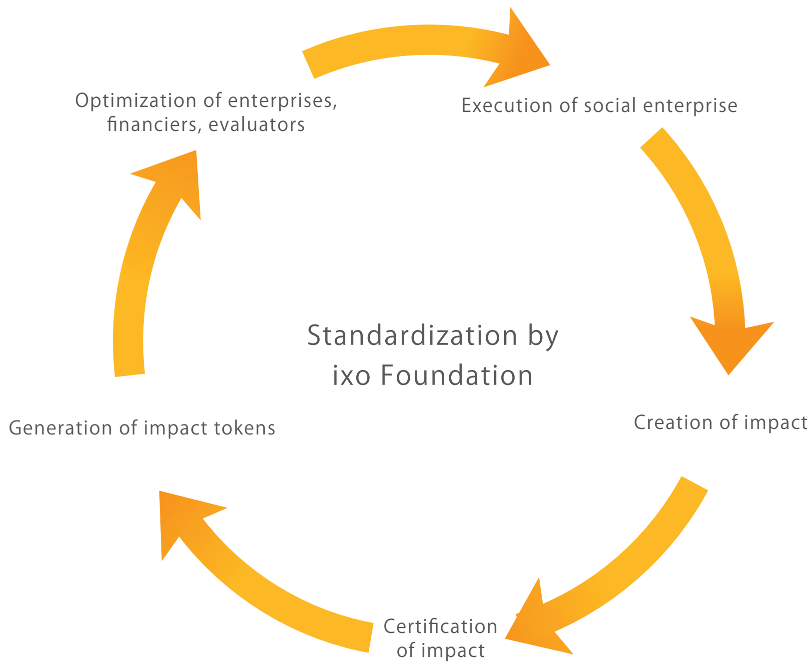
The report further points to the technology behind blockchain and the environment of trust it creates enables three major things: "transparency," because users can view transaction history in real time; "immutability," as past data cannot be altered without alerting the network; and "reduced counterparty risk," thanks to the system which is based on a decentralized consensus.

Moreover, through blockchain technology, tokens can be issued and exchanged. Tokens, issued by blockchain companies, can be given (monetary) value through various methods.[53] The advent of tokens has made it possible to conduct the previously-difficult task of assigning value to things or experiences, as well as the exchange of such values, creating new markets.[54]

It is due to these attributes that blockchain has the potential to drastically influence impact investing. Impact investing involves instances of investing in developing countries, where there may be vulnerable regulations systems or low-trust environments. At times, there is also severe obscurity or a lack of information, making risk management extremely challenging. The transparency and immutability of blockchains serve to address such needs for access to reliable data or information. Blockchains can be applied to impact evaluation, which is a key component of impact investing that relates directly to the return on an investment. The significance is noteworthy for impact measurement data to be deemed reliable and devoid of tampering risk, potentially at a low cost. ixo Foundation, based in Switzerland, creates blockchains to provide access to a decentralized impact exchange. Social projects adhering to preconditions can be submitted on this exchange. The conditions help identify enterprises with the right capabilities to provide the services, and if the evaluation agents (human or non) find that a project created impact,[55] then a token is issued as an impact asset. Impact assets are added to the global impact ledger, standardized and publicly disclosed.[56] In this way, a standardized set of immutable trustworthy data can be accumulated, potentially at a lower cost than without blockchain use. By making data on social impact visible and available, ixo Foundation foresees the optimized flow of impact projects, research and investments.[57]

53 Initial Coin Offerings (ICO) is one type of funding using cryptocurrencies whereby enterprises issue tokens.
54 Heuberger R. & Puhl I. (2018) "5 ways blockchain can transform the world of impact investing. World Economic Forum"
55 Evaluators can be not only person but also IoT or machine depending on the project.
56 Franz C. (2017) "Introduction to the ixo Protocol"
57 ixo Foundation (2018) "The Blockchain for IMPACT: technical white paper version 3.0"

Figure 48 ixo Foudation protocol



Blockchains can make the entire process of impact investing smoother through lower costs and faster speed. For instance, social impact bonds (SIBs) are difficult to scale due to their high costs, complex evaluations and financial structures. However, such challenges to scale can be overcome by using smart contracts which are programmed on blockchains. Once impact evaluation or terms of payment are set on a smart contract and run on a blockchain, that data cannot be manipulated. Furthermore, much of the conventionally required intermediary costs can be omitted with this process. While such discussions take place, in South Korea, Pan-Impact Korea[58] successfully launched an SIB whereby transactions are conducted via smart contracts. Pan-Impact Korea issued 1.11 million transferable smart contract units and distributed them among investors. Investors are able to see their investment accounts and safely trade with other investors. After outcomes are measured, income per share is accurately calculated and investors can easily check their income through a public, transparent database on the blockchain.[59] In this way, by programming the SIB using smart contracts, Pan-Impact Korea attempts to overcome difficulties of SIBs in terms of liquidity and challenges to scale.

58 Pan-Impact Korea http://panimpact.kr/first_smart_sib/ (Accessed on December 14, 2018)

59 Currency used is not cryptocurrency but conventional currencies, and the blockchain is used solely to manage the rights

Moreover, today's impact investing is low in liquidity due to a lack of standardized methods to accurately track progress, making it less appealing to investors due to the lack of a valid risk profile. Blockchain has drastically changed this, as it has brought about liquidity by enabling the generation and exchange of tokens. By solving the issues of low liquidity and uncertain risk which have hindered investors from participating in impact investing in the past, blockchain technology could make the market more appealing to new investors. Impact tokens have become extremely popular in recent years, and a portion of the issued tokens have been made available to the general public through ICOs. The Impact Token Project,[60] through its ITKN tokens, aims to capture impact created and monetize the creation of social good. Of the issued tokens, a third are available through token sales, a third are used by the Impact Token Foundation to motivate players to join the new ecosystem, and a third are retained by the Impact Token Project.

Blockchain technology is not without its problems. The vast amount of energy required to sustain the network, friction with existing regulations (namely related to privacy and security), and the lack of standardized methods are some issues yet to be solved. However, blockchain technology has unmistakably pointed to solutions for certain challenges in impact investing. Through continued trial and error, there may be an acceleration of blockchain use in impact investing and the proliferation of impact tokens.

60 IMPACT TOKEN PROJECT https://www.impacttokens.com/ (Accessed on December 10, 2018)

Conclusion

The Japanese impact investing market continues to expand from a market size of JPY 17 billion when it was first measured in 2014, to roughly JPY 344 billion, a nearly twentyfold increase in four years. Key trends observed in 2018 will likely continue in 2019, such as the entry of new individual investors and venture capital, as well as investments geared towards SDG-fulfillment by enterprises and investors. In addition, the scheduled activation of dormant funds in Japan[61] is also anticipated to promote the creation of an impact investing market ecosystem in Japan.

As the impact investing market continues to expand in Japan, the hope is for stakeholders to consider real positive impact creation for beneficiaries and examine whether negative impact is effectively being minimized, to grow both in size and through an elevation in quality.

61 Cabinet Office (2017) "Tentative Schedule for Utilization of Funds Related to Dormant Deposits After the Enactment of Act"

March 31, 2019

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