Impact Consortium

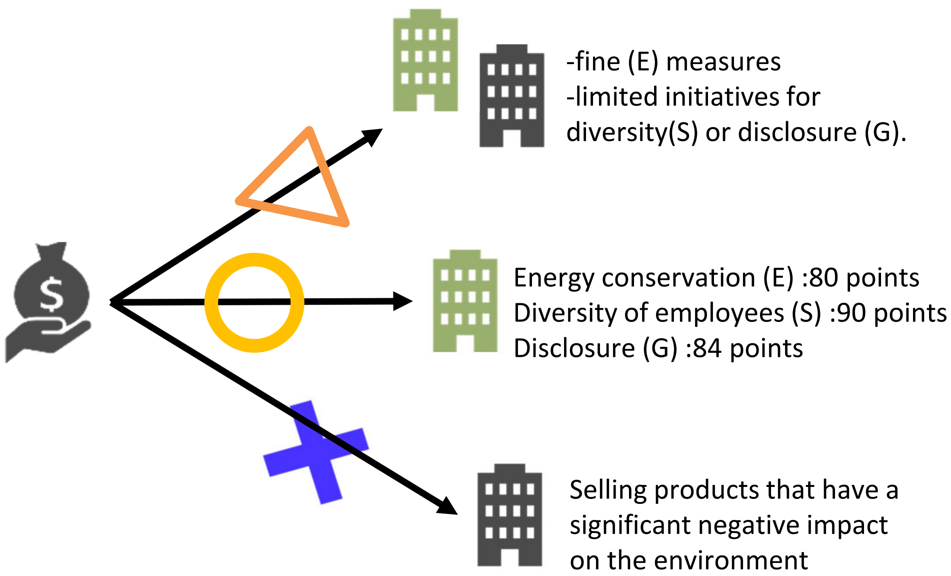
Japan’s Initiatives on Impact Investment in 2024

Overview of Impact Investment

- As the importance of social and environmental issues such as decarbonization, declining birthrate and aging population increases, **<u>the support of companies engaging in innovation and transformation that contribute to solving social or environmental issues has become urgent.</u>**
- While addressing social or environmental issues is often assumed to be costly, increasing numbers of companies undertake business transformation addressing those issues, based on a premise that they would complement and strengthen their own potentials (virtuous cycle).
- **<u>As an investment that intends to realize "social or environmental impact," at the same time to secure "financial return,"</u>** *impact investment* is characterized by concretely identifying impact that are to be created by the investment, and could play roles in materializing impact that also foster business potential.

Common ESG investment methods

<u>Comprehensively evaluating companies' ESG initiatives</u> to determine investment ratios or exclude specific industries from investment portfolio

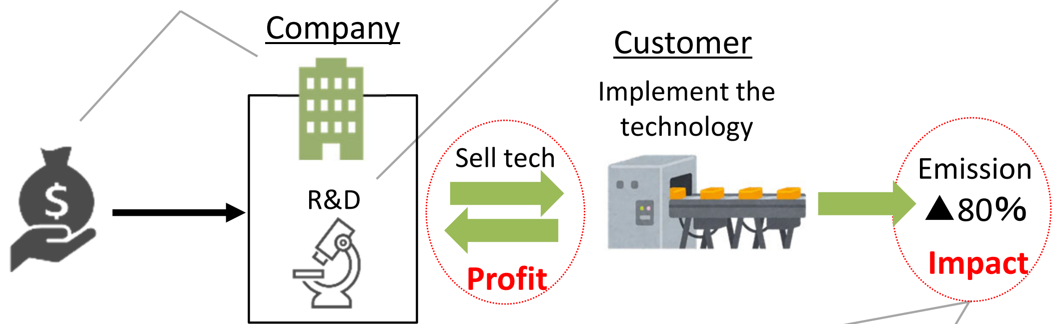


Impact investment

<u>Identify and commit to the specific impact</u> that should be realized through an investment

1. Intention
intended "social or environmental impact" is clarified

4.Innovation/transformation/acceleration
Support transforming or accelerating transformations in markets and customers



2. Contribution
investment contributes to realizing impact

3. Identification, measurement and management of Impact

Outline of Basic Guidelines on Impact Investment (Impact Finance)

- The JFSA formulated **"Basic Guidelines on Impact Investment (Impact Finance)" on March 2024** to foster common understandings on basic concepts and processes for, and further elaborate markets and practices on, impact investment, by **clarifying the basic elements expected for impact investment.**

- **In light of the characteristics of a growing market, the Guidelines is formulated as general and principle-based to encompass and encourage a wide range of efforts, creativity, and ingenuity by market participants.**

Investors/ Financial institution

1 Intention

- Clarify impact of investments in advance and formulate strategies
- Identify and mitigate any adverse effects of investment

2 Contribution

- Realize impact and business potential through investment
- Consider and endeavor appropriate financial or non-financial supports

3 Identification, measurement and management

- Measure and manage impact quantitatively or qualitatively, and engage in ongoing dialogue with investee companies
- Share information on indicators and results of the impacts of the investments

Listed companies/ Startups, etc.

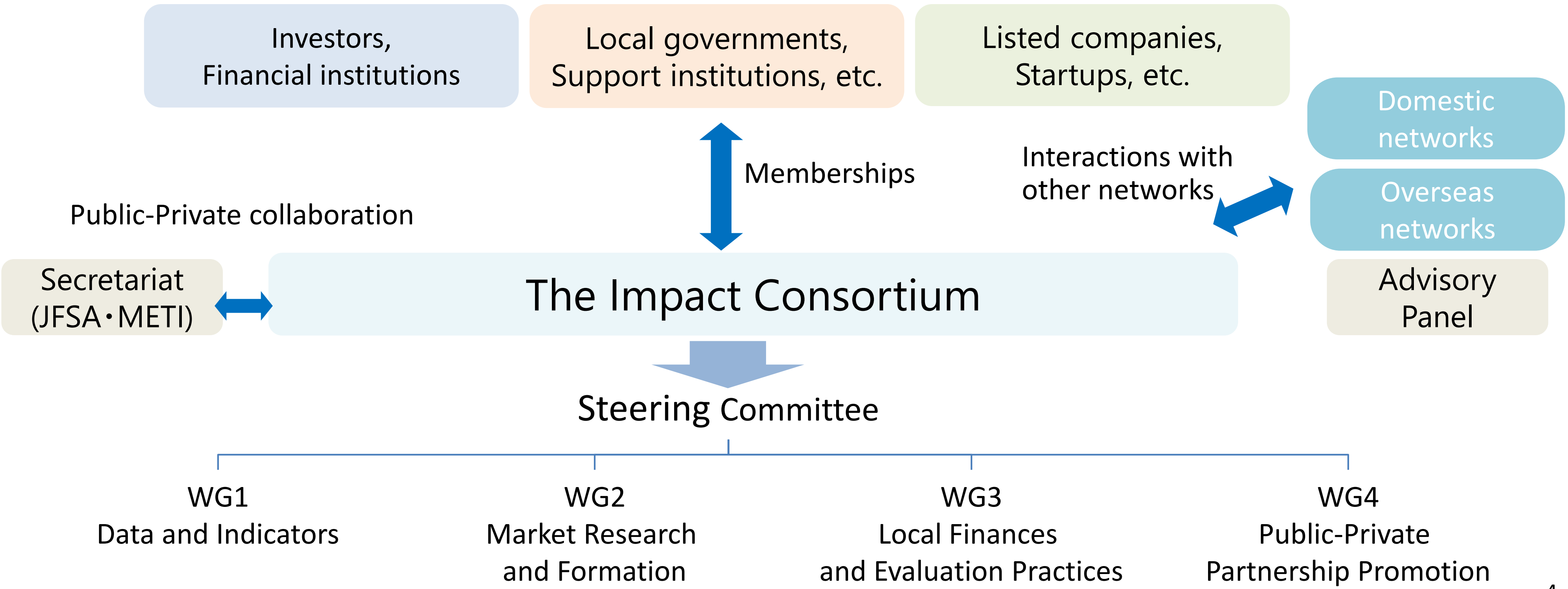
4 Support transforming or accelerating transformations in markets

- Identify and support the business's characteristics and advantages that enable and accelerate changes in the market and customers.
- Conduct dialogue with investees in a manner that could harness investee's potential to expand, develop, cultivate, or gain supports from the markets.

Impact — **Virtuous circle** — **Financial return**

Japan’s Impact Consortium

- As climate change, aging population and other social or environmental issues become urgent, it is becoming increasingly essential to support companies that aim to generate impact and business value.
- The JFSA, with public-private collaboration, launched **Japan’s Impact Consortium in November 2023,** as an interactive-communication platform **where impact-driven stakeholders could join in and share their expertise and experience.**
- The **Consortium** aims to provide **opportunities for Japanese investors and investees, including those who were previously not familiar** with the issues to **interact with leading domestic and global professionals and networks.**
- In this way, it would broaden impact investment market participants in Japan and abroad, **as well as advance ideas on practical KPIs and methodologies for identifying and enhancing the impact potentials of investees in investment practices.**



Members and Schedule

Chair and Vice-Chairs

Chair	MIZUGUCHI Takeshi	President, Takasaki City University of Economics
Vice-Chairs	SHIBUSAWA Ken	Chairman, GSG Impact JAPAN National Partner
	HASEGAWA Tomoko	Managing Director, Keidanren (Japan Business Federation)
	UENO Yoshiaki	Japanese Bankers Association, Chairman of the Planning Committee (Managing Executive Officer of Mitsubishi UFJ Financial Group)

Members

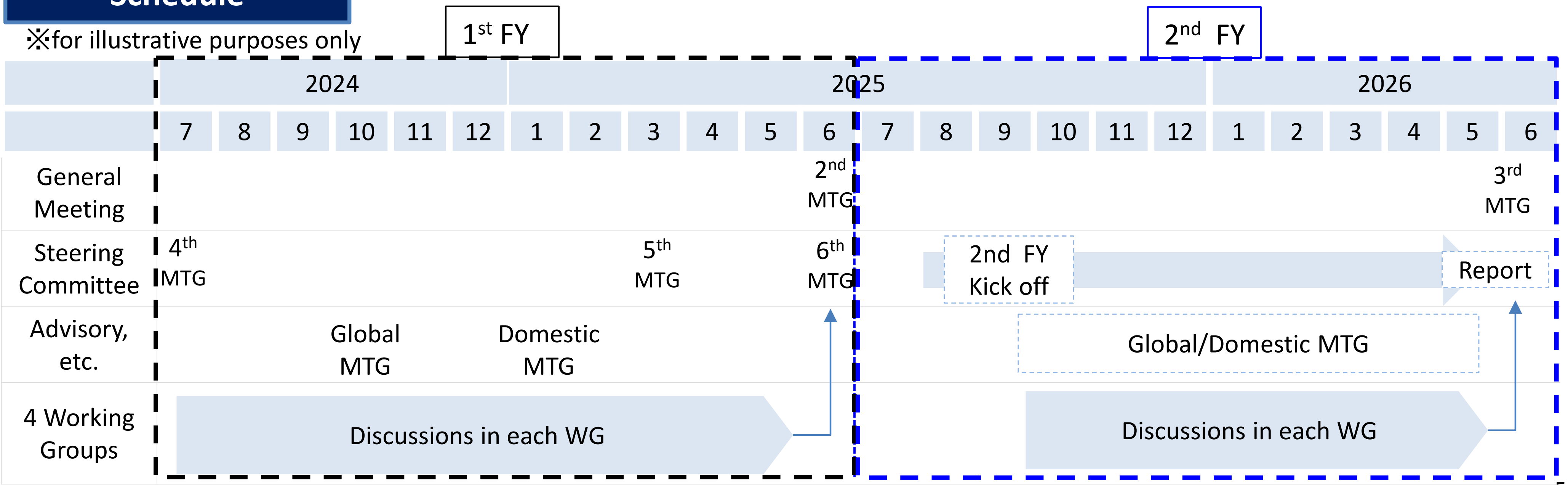
※As of May 2025

Total 418

Details
- Companies ... 131
- Investors ... 109
- Support organizations ... 80
- Industry associations ... 17
- Others (local governments, universities, etc.) ... 17
- Individuals ... 64

Schedule

※for illustrative purposes only



Working Groups Outlines

(1) Data and Indicators

- ✓ Analyzing impact data and indicators and corresponding collection methods, in particular, how investors and investees should identify fit-for-purpose KPIs in impact investment.
- ✓ Seeking in the medium or long term, to develop practical KPIs in collaboration with global organizations.

(2) Market Research and Formation

- ✓ Discussing and exploring common issues and methodologies on impact investment based on analysis of impact investing activities in Japan and overseas, especially focusing on impact investment in listed markets in the short term.
- ✓ Discussing corporate strategies whose impact leads to the enhancement and creation of corporate value, particularly focusing on listed companies.

(3) Local Finances and Evaluation Practices

- ✓ Sharing experiences and analyzing case studies regarding methods to incorporate impact into the evaluation of the business potentials of local companies.
- ✓ In particular, seeking to share ideas and expertise on effectively identifying and enhancing the impact potentials of companies that otherwise may have been unnoticed.

(4) Public-Private Partnership Promotion

- ✓ A forum for public-private collaboration between national and local governments and Impact Startups to discuss solutions to diverse social issues.
- ✓ Structuring the challenges associated with public-private partnerships for discussion, sharing best practices and know-how, and creating future case studies.

Working Group 1 : Data and Indicators - Report Summary

- To facilitate the practical implementation of impact investing, **it is essential to have accessible impact indicators, industry benchmarks such as baseline values, and use cases, etc.** To address this need, the working group **compiled and organized information from various leading databases**—each relevant to the primary applications of data and indicators in this field.
- The working group also proposes products for a desirable database, emphasizing the need for (1) **an "Impact Data Navigation Guide" that categorizes and organizes information on existing databases**; and (2) **the systematic compilation of key indicators**, baseline values, and practical use cases, with a particular focus on high-priority areas such as **climate change, biodiversity and environmental conservation, healthcare and medical services, and infrastructure development and urban planning.**

1. Organization of Existing Databases Based on Key Use Cases for Data and Indicators

Plan → Implement → Measure & Evaluate → Report, Utilize & Verify

Workspace 1 | Workspace 2 | Workspace 3

Identifying impact goals
Refer to examples of various indicators, guidance, etc.

Identifying impact indicators and baseline values
Refer to various statistical analyses, survey results, etc.

Comparing outcomes and baseline values to assess the achieved impact
Refer to various statistical analyses, survey results, etc.

Organized **19** examples of indicators, guidance, etc.

Organized **22** statical analyses and survey results

2. Identification of Priority Areas of Interest for Businesses and Investors, etc.*

- **Climate Change, Biodiversity and Environmental Conservation**
- **Healthcare and Medical Services**
- **Infrastructure Development and Urban Planning**

*See survey results on "issues of high interest" among participants of the first Working Group session

3. Fundamental Products for an Ideal Database

Database Providing Access to Indicators, Baseline Values, and Use Cases

Issues

1. **Relevant databases are dispersed, making effective utilization difficult.**
2. **There is a lack of impact indicators, baseline values, and use cases, etc. that meet the needs of businesses and investors.**

Direction for database development

1. **Role as an "Impact Data Navigation Guide"**
   By categorizing and organizing information on existing databases, facilitate efficient access to impact-related data resources.
2. **Compilation of Key Indicators, Baseline Values, and Use Cases**
   Organize key indicators, baseline values, and use cases from the following perspectives to support the identification, measurement, and management of impact.

Pers. 1	Relevance to Key Issues in Japan	Presenting specific challenges in high-priority areas can serve as a catalyst for companies to consider how their businesses might contribute to addressing these issues.
Pers. 2	International Alignment	By using the SDGs as a foundation to ensure global consistency, and by developing data and indicators relevant to issues specific to developed countries, the database can contribute to international dialogue and cooperation.
Pers. 3	Relationship to Corporate Value	By including indicators and related use cases that have demonstrated a certain correlation with corporate value in analytical research, the database can help facilitate practical investment decisions.

Working Group 2 : Market Research and Formation - Report Summary（1/2）

Definitions and Concepts of Impact and Impact Investing		■ The fundamental definition and essential components of impact investing are gradually being cultivated as a shared understanding both domestically and internationally. ■ The Impact Management Platform posits that **financial materiality is influenced not only by company-specific risks and opportunities but also by systemic environmental and social risks and opportunities.** This framework provides a useful model for understanding the relationship between various disclosures and impact.
Significance and Benefits of Impact Generation and Impact Investing		■ Impact investing is **essential for the continued sustainable development of society**. **It requires proactive engagement with environmental and social challenges by all actors in the investment chain,** collaborating to generate collective impact.
Impact Identification, Measurement, and Management	Companies	■ Combining the lens of **materiality (key issues) for companies** with tools like the UNEP FI Impact Radar can provide valuable insights for companies with diversified businesses.
	Investors	■ For diversified, publicly listed companies, there are cases where **some business segments may generate positive impact** while others generate negative impact. In such cases, **investment selection criteria may exclude companies where negative impacts outweigh positive ones** or **may focus on the future potential of the positive-impact segments.**

Working Group 2 : Market Research and Formation - Report Summary（2/2）

Impact Disclosure and Engagement	■ For deeper engagement between publicly listed companies and investors, **it is essential for companies to articulate the significance of their impact initiatives and their relationship to corporate value. Appropriate disclosure of this information facilitates shared intention and understanding** between companies and investors. ■ **More than the magnitude of visualized and quantified impact, more emphasis is placed on the strength of management's commitment to growing impact-generating businesses and the rational integration of impact into long-term corporate strategy.** Furthermore, **demonstrating the relationship between impact and corporate value through case studies** effectively enhances investor understanding. ■ Given the need for broad investor consensus in an IPO, **linking impact to valuation through a compelling equity story** is crucial.
Impact Investing by Asset Owners	■ For asset owners to advance impact investing, **it is necessary for them to understand the importance of impact orientation in management and operations, clarify the society they want to realize,** and formulate and implement impact investing policies and initiatives. ■ For asset owners engaged in impact investing, **long-term dialogue with investee companies, asset managers, and beneficiaries (policyholders and pensioners) is essential.**

Working Group 3 : Local Finances and Evaluation Practices - Report Summary

	Business Track		Finance Track	
	The 1st Meeting	The 2nd Meeting	The 3rd Meeting	The 4th Meeting
Why ▸Why is it necessary to focus on creating meaningful impact within the local community?	• The greatest challenge facing local communities is the inability to sustain themselves. It is essential to address region-specific issues while fostering understanding and collaboration among stakeholders. • It is crucial to **reassess and rediscover the diverse values** inherent in rural areas, including natural capital that may not directly translate into immediate economic value. • Contributing to local communities **enhances corporate value, supports the recruitment of top talent, and fosters employee motivation.**		• For regional financial institutions, the health and sustainability of the local economy are **inextricably linked to their own operational foundation.** • Creating local impact **enhance the overall quality and richness of life in the region.** • Given the complexity of social issues, it's important to take a **structural approach to creating impact—shifting from isolated, single-point solutions to interconnected and holistic strategies.** Strengthening collaboration among all stakeholders is key to addressing these challenges effectively.	

The working group fostered a shared understanding of the need to consciously create impact within the local community

	Business Track		Finance Track	
What/How and Challenges ▸What actions and strategies should be implemented to turn local challenges into opportunities for business growth and reform?	• Strengthening collaboration with diverse stakeholders both within and outside the region • Utilizing flexible financing methods • Establishing systems for talent development and recruitment to secure skilled personnel **Challenges** • **The presence of a catalytic function** that connects networks within the region is becoming increasingly important. • **Financial institutions** are expected to **transform their actions** to support businesses aiming to solve social issues.		• A multifaceted approach beyond traditional lending practices • Fostering new industries and an ecosystem of human and intellectual capital through industry-academia-government-finance collaboration **Challenges** • There is a **shortage of financial institution personnel** skilled in exploring diverse solutions, including equity utilization, with an **impact-oriented approach.** • Efforts to create impact in regional financial institutions vary, and **incentives to prioritize impact** remain insufficient.	

Insights were gained through case studies, but challenges remain in translating them into concrete practice.

Theme for Next Year ▸Key challenges to achieving impact.	• **A deeper exploration of the methods (How)** available to local fund providers. • Discussions aimed at **creating incentives** for local fund providers to **actively engage in impact creation.**

Summary of Deliverables

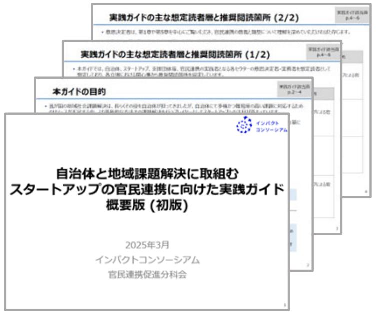
Standardizing measures for solving issues related to PPP for startups based on the following:

- ✓ The expert-derived know-how from advanced local governments, startups, and relevant agencies who have actively engaged in PPP promotion.
- ✓ Gathered Opinions from representatives from regional government and startups participating in the WG.

A Practical Guide for Public-Private Partnerships between Local Governments and Startups

Full Version （Approx.120 pages）

Executive Summary （Approx.30 pages）



Available in Japanese only

Intended Readers for the Practical Guide

	Decision-makers	Practitioners
Local Governments	• Chief Executives (Governors and Mayors) • Department / Bureau Chiefs	• Officials engaging in Public-Private Partnerships • Officials in Contract / Financial Division
Startups	• CEOs • Department Managers	• External Affairs Officers • Project Officer
Others	• Personnel from Support Organizations, etc.	

Structure		Contents
Introduction		The purpose of this guide and the expected benefits that can be realized through public-private partnerships between local governments and startups.
Ch.1	The Importance of Public-Private Partnerships	
Ch.2	Approaches to Partnerships	Prerequisite knowledge and mindsets for collaboration.
Ch.3	Local Governments	The process and key points for internal coordination and relationship building.
Ch.4	Startups	The process and key points for preparation and relationship building with local governments.
Ch.5	Public-Private Partnerships	Types of partnerships and their Examples, Support Schemes, and other useful information.

URL https://www.meti.go.jp/policy/newbusiness/impact/index.html