

THE SECOND WORKING-LEVEL MEETING WAS HELD.

The second working-level meeting of the Impact-driven Financing Initiative was held on Wednesday, 20 April, 2022. The meeting was attended by a total of 66 participants, from 25 signatories, 2 prospective signatories, 3 supporters from domestic organisations and 2 observers who are considering joining the Initiative.



At the meeting, following the introduction of prospective signatories and a new Steering Committee member, the Steering Committee discussions were shared with participants. Then the participants discussed on the Initiative's strategy, future activities including report publication and working group activities and so on.

1. Introduction of prospective signatories and a new Steering Committee member

Sumitomo Life Insurance Company, who signed on 1 April 2022, and Cloud Credit Inc. who is scheduled to sign on 1 May 2022, commented on their expectations of the Initiative and their own activities in relation to impact finance.

In addition, Mr. Kenjiro Okazaki of Dai-ichi Life Insurance Company, who has succeeded Ms. Hiroko Ishii as a new Steering Committee member, also gave his remarks.

2. Update from the Steering Committee

The Impact-driven Financing Initiative has established a Steering Committee to promote the overall activities of the Initiative, which held its first meeting on 21 February and has been meeting regularly on a monthly basis since then.

In order to share with signatories and supporters what discussions have been held by the Steering Committee, the Secretariat first briefly explained the discussions held by the Steering Committee

over the past three meetings. This was followed by a summary of the discussions at the most recent third Steering Committee meeting (18 April), including (i) differentiation from the "Impact Investing Roundtable" co-hosted by GSG-NAB Japan and Financial Services Agency of Japan and the different roles of the Steering Committee and working-level meetings, (ii) discussions on the definition of impact finance, (iii) the strategy and TOC (Theory of Change) of the Initiative, (iv) the contents of the progress report for the first year, and (iv) the specific activity plan. (See Reference 1)

Then, Tsukasa Kanai, Chairman of the Steering Committee, from Sumitomo Mitsui Trust Holdings made comments. First, regarding the timing of the publication of the Progress Report, he explained that the Steering Committee members had agreed to aim for one year after the launch of the Declaration (November 2021) rather than one year from the present time, in order to promote activities as quickly as possible, and to organise what needs to be done in a backcasting manner after setting the target timing. He also mentioned the importance of the working groups and expressed the expectation that signatories and supporting organisations would participate in the working groups and engage actively in the activities of the groups.

Minoru Matsubara, Vice-Chairman of the Steering Committee, from Resona Asset Management, also made comments. He expressed the view that, with regard to the Progress Report, rather than building up best practice, it is important to connect the uniqueness of each signatory organisation with its own characteristics, based on the idea of what kind of activities each signatory organisation would like to carry out with its own plan. He also stated that the role of the working groups will grow and that the knowledge gained from each working group will be linked to other working groups, leading to an overall improvement, and expressed the hope that the activities in this Initiative will provide a platform for aiming for an impact orientation.

Masaaki Amma, from the Secretariat, gave an additional explanation of the strategy for this Initiative (Ref. 1, p. 12), which has been discussed by the Steering Committee. He explained that this strategy encompasses both the bottom-up approach of building up individual cases of impact finance with IMM, which will lead to the realisation of impact orientation in the overall operations of financial institutions, and the top-down approach of impact-oriented management. He also expressed the view that the realisation of impact-oriented finance will also require a transformation of the value creation processes of financial institutions.

3. Discussion based on the update from the Steering Committee

After updates from the Steering Committee, discussions took place among the participants. Positive opinions and comments were raised by the participating members of the Steering Committee and signatory organisations for future activities, as outlined below.

【Regarding overall activities】

- ✓ As the Initiative is a group of financial institutions engaged in impact finance in practice, we would like to share examples of our own approaches to IMM and best practices in impact generation at the working group meetings, and have discussions among participating institutions.
- ✓ When looking at the Theory of Change (TOC) of the Initiative, it would be good to consider initiatives from the perspective of what each financial institution can do and what is necessary to achieve the Initiative's vision and mission.

【Activities related to/expanding the universe of investees】

- ✓ The major role of the Initiative will be to share best practices and examples of how to work with portfolio companies to improve corporate value, set KPIs, and consider engagement methods among participating financial institutions.
- ✓ There are gradations in the term 'impact' depending on the company invested in, with some companies having originally started up as impact-driven, while others have not been conscious of their impact but are in fact contributing to the region. While the former may be linked to corporate value by providing IMM methods, the latter may only become aware of their own social value and contribution to the region through impact finance opportunities, and this may provide an opportunity for the investee company to reassess its business model.
- ✓ We would also like to discuss the extent to which IMM should be implemented in order to broaden the scope of impact finance. It would be good if we could show suitable methods for companies to introduce it and make it easier for everyone to work on it.
- ✓ While it is important to disseminate best practice as North Star goals, if we are aiming for a world where everyone is aiming for impact, it would be good if we can disseminate information that allows people to take the 'first step', not from the perspective of differentiation.
- ✓ Impact finance requires an intention on the demand side (investee companies), so as a financial institution, it would be good to create and disseminate a platform that can also be used as a reference for the companies' side.

【Promotion of impact-driven management】

- ✓ The value creation process in integrated thinking is important in the incorporation of an impact orientation in management. The value creation process is based on a form of logic model but includes Capitals, which is a way of thinking about how to increase the value of capital through corporate management. As well as questioning the value creation process of financial institutions themselves, impact finance also has the role of raising the level of the value creation process of investee companies.

【Definition of impact finance】

- ✓ Since the definition of impact finance is broad (Ref. 1, p. 9), different people have different perceptions of it, and it is difficult for end asset owners (especially retail investors) to understand, which may hinder the expansion of impact finance. It would be easier to understand if they were categorised in a gradient, as shown on p.11.
- ✓ The barrier to introducing the highest level of IMM is particularly high for investments in early-stage companies, so it would be easier for everyone to work on this initiative if the classification could be used to provide examples of methods that are appropriate for the stage of the company introducing the IMM. This may make it easier for everyone to take action.
- ✓ Investments and loans that do not involve IMM but assume an impact, which can be considered one step before impact finance, should also be included in the consideration. In particular, we would like to consider a gradation of the management part of IMM (comment by the Secretariat).
- ✓ Interested financial institutions are invited to join the Secretariat's discussions on the definitions (comment by the Secretariat).

【IMM practice】

- ✓ We would like to visualise not only the risk-return aspect but also the impact, and it would be good to share case studies and standardise the setting of KPIs through the working groups.
- ✓ We have just started implementing IMM and would like to share our own experiences.
- ✓ The question is not to evaluate impact for the sake of evaluation, but to measure how finance and engagement with investees affects their business from the perspective of investor contribution. We would like to discuss this with participating institutions while sharing our own best practices and approaches.
- ✓ When considering a deep understanding of the investee's business and maximising returns, setting impact KPIs and IMM are inevitably required. We would like to discuss this while sharing our own practices.

【Dissemination to domestic and international communities and international cooperation】

- ✓ As the Initiative is characterised by the fact that it brings together various asset classes, it is important to disseminate the promotion of impact-oriented finance at the management level, while also digging deeper into the practical aspects at the field level and disseminating case studies and best practices.
- ✓ It is important to clarify the differences between the Initiative's Progress Report and the annual reports of the GSG National Advisory Committees.

- ✓ If there are no similar examples of cross-financial institution initiatives such as this initiative in the world, and Japan is ahead of other countries, it may be a good idea to consider disseminating the Initiative to overseas countries as well.
- ✓ (In relation to the above statement), we would like to discuss how to participate in the global movement, including, for example, the possibility of presenting the Initiative at the GIIN's upcoming Investor Forum in Hague in October and at other international events.
- ✓ Some institutions have been founded as impact-oriented organisations from the initial stages, while others, particularly large traditional financial institutions, have had to transform their management in the process of becoming more impact-oriented. It may be worth disseminating examples of such transformations to the world.
- ✓ We would like to provide best practice in the field of international development. DFIs in European countries are implementing IMM cost-sharing, which is a good reference for how to create an impact ecosystem.
- ✓ As we have an international network, we would like to use the network when communicating Japan's impact investment to the rest of the world.

【Activities by asset class】

- ✓ As regional financial institutions from various regions have gathered, we would like to promote activities across financial institutions to (i) develop knowledge and (ii) spread and inform, and discuss the creation of regional impact through finance for SMEs in the region.
- ✓ As an asset owner, we would like to promote activities that involve the entire investment chain, while cooperating with other initiatives.

4. Schedule for the near future

- ✓ The decision to set up working groups will be made after a survey of the signatory organisations to find out their preferences through the questionnaire.
- ✓ The progress report will be published by December/January, but the impact investing balance will be based on data as at the end of September.

Reference:

1.第2回ワーキングレベル会合資料

End.