

Japan Impact-driven Financing Initiative

Preamble

Environmental and social issues outlined in the UNSDGs are becoming increasingly significant for financial institutions, in particular, the threat of climate change and the new social and healthcare challenges exposed by the COVID-19 crisis (such as delays in digitalization and healthcare reform). Investment by central and local governments or international organizations is not sufficient to tackle these challenges, and the private sectors' contribution is now essential, as huge efforts are needed to achieve the SDGs. Financial institutions can contribute to minimizing the negative and maximizing the positive environmental and social impact of the companies they are investing into.

They can contribute to creating impact by investing into companies actively addressing environmental and social issues in two ways. One is through financing those companies that integrated environmental and social impact in their business model. Additional funds will support such companies to scale their outcomes. Another way is for them to provide risk money for projects for the development of innovative technologies and business models. The created impact will contribute to the growth of the business in long term, therefore contribute to the value creation, which means that environmental and social impact creation is compatible with profitability.

However, new skills are required to effectively balance profit and impact, and stay ahead of fast moving changes in this evolving field. For impact driven companies these skills are often the development of a robust business model based on environmental and social outcomes. For investors, these skills include enhanced due diligence expertise, thorough understanding of engagement methods and financial product structuring. In order to develop those skills, collaboration between companies and financial institutions is crucial.

The inclusion of impact into an investor's operations often requires internal discussions about the sustainability of their own existence, the mission and purpose of the organization, and the adoption of a comprehensive impact-driven approach to solving environmental and social issues - driven from the senior management.

For financial institutions to practice impact investment (impact-driven investment and lending), it is necessary that appropriate impact measurement and management (IMM)

practices are developed. In the practice of impact investment, although the appropriate and realistic way of IMM differs according to the attributes of the financial institutions and companies, the implementation of IMM is essential.

Impact Investment is global, and is already making its mark on global markets. It is becoming necessary for Japanese financial institutions that are closely connected to global markets to collaborate and cooperate with global organizations that promote impact investment, while complying with or referring to internationally developed principles and standards.

The pursuit of impact and the implementation of IMM are important developments for the financial sector in Japan. It is now the time for senior leadership in financial institutions to drive the inclusion of impact as a decision driver in their investment decisions. It is also necessary to transform the flow of funds handled by financial institutions to be as impact-driven as possible, and to create a sustainable circulation of funds that can autonomously solve environmental and social issues.

Signatories of the declaration will take following actions in their own organizations as well as in cooperation with other signatories.

Commitments and actions

1. We understand the importance of being impact-driven in management in order for financial institutions to fulfill the role expected by society, and we will practice impact investment in each of our financial institutions.
2. We will integrate IMM as a decision driver in every investment process and financial product, since we believe that impact visualization as well as impact management, which requires efforts to continuously create impact by utilizing impact information, integrating into investment strategies and a decision driver, are necessary.
3. We will develop each action plan for the above-mentioned actions (1 and 2), appropriate to the situation of each organization, and then share and discuss the best practices and challenges experienced among the signatories, so that we can develop the signatories' community as a platform in a sustainable manner.
4. We will engage in collaborative activities at the working level of signatories, including exchange of information, and necessary research and studies, with a view to improving the quality of IMM and increasing the volume of impact investing.
5. We will work collaboratively to ensure that the impact-driven management of financial

institutions and the implementation of the IMM will spread throughout the Japanese financial industry, including financial institutions not participating in this declaration.

6. We will actively participate in global initiatives that promote impact investing and IMM, contribute to the promotion of international impact investing, and actively disseminate information from Japan.
7. We will continue these activities until Japan's financial sector is able to develop impact investing in a sustainable and autonomous manner.

This document is reviewed by the Global Steering Group for Impact Investment (GSG).

List of Signatory Organizations and Representatives:

As per attached

Supporters:

Global Impact Investing Network (GIIN)

Global Steering Group for Impact Investing (GSG)

Japan Exchange Group (JPX)

Japan International Cooperation Agency (JICA)

Japan GSG National Advisory Board

Japan Social Innovation and Investment Foundation (SIIF)

Social Impact Management Initiative (SIMI)

[end of document]