

THE 4th WORKING-LEVEL MEETING WAS HELD.

The fourth working-level meeting of the Impact-driven Financing Initiative was held on Wednesday, 1 November, 2022. The meeting was attended by a total of 74 participants, from 40 signatories, 5 supporters from domestic organisations and observers who are considering joining the Initiative.

At the meeting, following the introduction of new signatories, updates from the working groups, updates on the progress report, reports from the GIIN investor forum were made. Also, participants held a discussion on the theme 'The Past and Future of the Impact-driven Financing Initiative'.

1. Introduction of new signatories

Taliki, Inc., which signed on 1 September 2022; Nihon PMI Partners Co., Ltd. and Japan Post Investment Corporation, which signed on 1 October; and Yamaguchi Capital Co., Ltd., Keio Innovation Initiative, Inc., The Norinchukin Bank and Meiji Yasuda Life Insurance Company, which signed on 1 November, commented on their expectations of the Initiative and their efforts related to impact finance.

2. Reports from the working groups

The chairperson and vice-chairperson of each working group reported on their activities. (For an overview of each working group, see documents P4-10).

[DEFENITION WORKING GROUP]

- ✓ The working group has been discussing how to calculate the impact finance balances to be included in the Progress Report. Criteria for the Progress Report have already been developed, but the working group will hold discussions when it becomes necessary to revise the criteria in the future.

[IMM WORKING GROUP]

- ✓ For the time being, Mr Imata of SIMI and Ms Sugeno of SIIF have taken on the role of co-chairs and have started activities to share challenging aspects of the IMM, based first on a participant questionnaire on the IMM. Three meetings have been held so far. In addition, in collaboration with the VC working group, a series of 'Basic IMM Lectures' have been organised to provide a basic form of IMM across asset classes in a lecture format and with case studies.
- ✓ The role and positioning of the IMM working group with other working groups will be discussed in the future, but the IMM working group will play a cross-cutting role and promote basic understanding and dissemination of IMM, while the VC working group, for example, will discuss methods of implementation specific to the asset class.

[SOCIAL INDICATORS WORKING GROUP]

- ✓ Among ESG, 'S' is an area where there is no framework with a consensus yet, but the working group believes that the S perspective is indispensable for the financial industry, including regional finance, when considering solutions to the problems of local communities. Therefore, the working group will not just try to think about social indicators, but will also consider what the role of finance is, based on the premise that the development of local communities is indispensable for finance.
- ✓ The working group will also work in close cooperation with the regional finance working group, which has so far co-held meetings on themes such as 'the regional society and finance' and 'global trends from the perspective of S'.

[AO/AM WORKING GROUP]

- ✓ This working group will address the issue of 'how to engage asset owners towards impact investing', while listening to the views of asset managers.
- ✓ Important aspects of engagement include communicating the point that there are projects and projects where impact is important for realising financial returns, rather than talking about impact intentionality from the outset, and studying and sharing the mechanism for integrated impact and return decisions. It is also necessary to provide technical support on how to incorporate impact investment into existing portfolios. This will be done over time, while also looking at overseas case studies.

[REGIONAL FINANCE WORKING GROUP]

- ✓ Since the last working level meeting, a total of three meetings (July, August and September) have been held, focusing on sharing case studies. Specifically, case studies of Positive Impact Finance, The Kyoto Shinkin Bank's social enterprise certification system, as well as Music Security's impact investment in local enterprises and Sumitomo Mitsui Trust Bank's collaboration with Odawara City in solving local issues through public-private partnerships were shared. Also, chairperson Kanai, a member of the Regional Development SDGs Finance Research and Study Group, also shared information on the latest discussions and changes to the registration and certification system.
- ✓ Through this working group, the similarities and differences between loans and investments will be sorted out, while discussing the dissemination of information to raise the level of impact in the region, and how to connect regional finance institutions and funds with impact as a starting point.

[VC WORKING GROUP]

- ✓ This working group aims to make the flow of funds handled by VCs as impact-oriented as possible and to develop an environment that facilitates the practice of impact-oriented approaches.
- ✓ As mentioned by the IMM working group, this working group is collaborating with the IMM working group to improve understanding of IMM, and plans to raise the level of practical knowledge in a peer-learning approach by sharing specific examples from signatory organisations and advanced cases from overseas. Ultimately, the working group hopes to promote activities such as a common understanding of impact investment at each VC investment stage and in each industry, and the development of good practice examples.

[OVERSEAS COOPERATION WORKING GROUP]

- ✓ The main objectives of this working group are to understand the impact investment-related information accumulated overseas, to expand the network, and to disseminate Japanese activities to the rest of the world.
- ✓ So far, webinars with BlueMark and roundtable discussions with the director of SDGs Impact have been held. With regard to disseminating information abroad, members have spoken at the GIIN Investor Forum, which will be described later (see 4. below for more details).

3. Update on the preparation of the Progress Report

The Secretariat shared information on the status of the progress of the preparation of the Progress Report. Content is currently being prepared based on information provided by the members and working groups, and the signatory organisations were requested to cooperate in providing information in a timely manner.

4. Report from the GIIN Investor Forum

Masato Nakamura (GLIN Impact Capital), vice-chair of the overseas cooperation working group, Hiroyuki Nomura of Japan Post Insurance, one of the signatories, and Masaaki Amma and Nanako Kudo of the Secretariat (all from SIIF) attended the GIIN (Global Impact Investing Network) Investor Forum held in October in The Hague, the Netherlands, and spoke at the session "Impact-Driven

Financing Initiative and the Recent Evolution of Impact Investing in Japan. On behalf of the participants, Mr Amma presented the following report.

- ✓ The Forum attracted 1,600 participants from around the world, a significant increase from the 600 participants at the previous Forum (held in 2019 before the Covid-19 pandemic), indicating a high level of interest.
- ✓ During the session introducing the activities of the Impact-driven Financing Initiative, participants asked a variety of questions about impact investing in Japan.
- ✓ The overall impression of the conference was that PE, VC and asset managers had a very large presence, while debt was limited to microfinance institutions and some VCs in developing countries, and equity investment was still the mainstream.
- ✓ The overall conference theme was Thoughtful Innovation, which emphasised the importance of innovation. The conference also emphasised the need for leadership, horizontal collaboration and cooperation to expand the impact investment boundary as Courageous Leadership, as well as Confident Action.
- ✓ With regard to impact investing in Asia, there was a surprise when Singapore's Temasek came out as a founding strategic partner of the GIIN Impact Lab. Temasek's commitment to becoming a leader in impact investment in Asia was conveyed.
- ✓ ESG bashing was the hot topic of discussion and there was widespread concern about the conflation of ESG and impact investment.

Comments were also made by Mr Nakamura of GLIN and Mr Nomura of Japan Post Insurance. The overseas collaboration working group will continue to seize opportunities for overseas collaboration and contribute to expanding Japan's presence in the global arena.

5. Discussion: 'The Past and Future of the Impact-driven Financing Initiative

Prior to the discussion, the Secretariat shared the results of a questionnaire for signatory organisations conducted prior to this working level meeting (see documents P14-P16). The results showed a high level of satisfaction with the Initiative's activities to date, particularly in terms of working group activities, building links and industry networks with other organisations, and reflecting this in their own practices. In terms of expectations for future activities, the respondents mentioned strengthening domestic and international cooperation, expanding to other financial institutions and businesses, improving quality and deepening discussions.

In the breakout session, participants were divided into eight groups to discuss the following questions. '(i) What are the challenges we face as a financial industry in Japan in addressing impact investing?' '(ii) What would you like to see achieved in the medium term (3-5 years) with impact-oriented finance initiatives?

OPINIONS RAISED ON "(I) CHALLENGES IN ADDRESSING IMPACT INVESTMENT":

- ✓ The IMM methodology is not yet mature. It is particularly difficult to explain the relationship with economic returns, and in order to attract big players such as pension funds to the market, it is necessary to organise in some way that economic and social returns are synchronised in the long term from the perspective of fiduciary duty.
- ✓ Low levels of awareness. The penetration of ESG has been lapsed compared to other countries, but it is also difficult to close the gap on impact, leading to a low level of awareness. There also needs to be a change in mindset that impact is becoming the mainstream of ESG investment.
- ✓ Difficulties in proving causality with regard to social returns. Even in development finance, which has been practising IMM for many years, it is still difficult.
- ✓ Sharing of social issues. It is necessary to move from an impersonal framework to a more platform-like system by sharing social issues and evaluation mechanisms.

- ✓ Sharing of other companies' movements and perspectives. Information needs to be shared among financial institutions on the impact of the investee and the approach to engagement.
- ✓ Discussion of who impact is for. When it comes to what impact investment is for, there are various positions and different bases, such as for profit or social contribution, so it is difficult to engage in conversation.
- ✓ Gap between ESG/impact departments and frontline departments within the company: the ESG/impact departments are deepening their knowledge and working based on the understanding that 'social returns lead to higher corporate value, which in turn leads to economic returns', while the frontline departments are more short-sighted.
- ✓ Underdevelopment of impact indicators. It is important to define definitions and set them as impact indicators.
- ✓ Expanding the market while ensuring diversity. While it is important to share case studies and best practices, it is also important to find common elements and incorporate them into one's own business domain and business in the region to promote impact financing, so that it does not become homogenised.
- ✓ Raising awareness of portfolio companies: raising awareness on the investee side is also necessary when implementing IMM. It is also necessary to create an IMM mechanism involving portfolio companies.
- ✓ Lack of projects that can generate returns.
- ✓ Lack of human resources. Specialist expertise is required for actual measurement and monitoring of impact investment, but more human resource development is needed on both the investee and investment sides.
- ✓ Clear communication and transparency. It is important to explain what is being done in impact investment in a logical manner, and to disclose and communicate this information, including within the company. More disclosure and communication, including within the company, is important.
- ✓ Market expansion. The challenge is how to raise money and expand the market.

OPINIONS RAISED ON " (II) WHAT WE WANT TO ACHIEVE IN THE MEDIUM TERM UNDER THE INITIATIVE":

- ✓ Development of Japan's unique know-how. It would be good if something like IRIS+ Japan could be developed with a local focus, as there are some impacts that are unique to Japan.
- ✓ Development of shared knowledge. In order to expand impact investment, it would be good if definitions of impact, schemes, common indicators, etc. could be organised, standardised and catalogued. In addition, best practice and model cases should be created and disseminated on this platform.
- ✓ Overseas dissemination. Japan has a wide range of social issues, so it would be good if the various good practices and practical cases discovered in this platform could be disseminated overseas.
- ✓ Solving social issues by bringing together financial institutions. Demonstrating the energy to move towards a better society, based on the potential of finance, i.e. its ability to look at society as a whole and to have a bird's eye view. Achieving step by step solutions to social issues by bringing together multiple financial institutions.
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- ✓ Increased recognition. It would be good if impact investment is better recognised internally and externally and attracts more attention.
- ✓ Making impact and return and increasing credibility. Make it clear over the medium and long term that impact and economic return are not independent of each other.
- ✓ Horizontal cooperation with diverse financial providers. For example, it would be good if financial institutions could form a scrum and collaborate horizontally by discussing and sharing knowledge on what kind of impact they can make in this area. From the perspective of an impact ecosystem, it would be good if investment and financing institutions could play complementary roles, for example by visualising what is lacking in the ecosystem as a whole, and by working together.
- ✓ Continuation. It would be good if this platform is continued and developed and becomes the centre of impact finance in Japan.
- ✓ Pursuit of the potential of IMM, in terms of pursuing new possibilities for financial institutions, such as using IMM not only for investment but also as a means of consensus-building, etc.
- ✓ Creation of new financial product schemes. Discussing specific model cases for issues and themes of high interest, such as regional development and specific social issues, and creating new financial schemes.
- ✓ Building an ecosystem. Increase the number of practitioners by about three times and develop the ecosystem. Create a forum where case studies of leading players can be shared and discussed openly, as it is likely that in three years' time not only success stories but also cases of failure will emerge, and we would like the platform to be a place where such cases of failure can also be shared.

6. Upcoming Plans

- ✓ The next working level meeting will be held on 26 January in conjunction with the General Meeting of Representatives.
- ✓ The progress report will be published in January.

Reference: 第4回ワーキングレベル会合資料(Japanese only)

End.