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Frontiers of International Finance
- Scenarios for Japan's Prosperity

Impact Investment in Japan and ASEAN:
How is the Impact Investment Ecosystem Built?

Impact Measurement and Management Frameworks For Impact Investing Ecosystem

SOCIAL VALUE
JAPAN

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Ken Ito founded Social Value Japan in 2012. He has an MBA in International Management from The American Graduate School of International Management (Thunderbird) in the United States. Ken spent ten years in the private sector, with his last position at GE Capital.

He is visiting senior researcher at SFC Research Institute at Keio University since 2007. Ken teaches at Graduate School of Media and Governance as Lecturer and conduct research programs as Project Assistant Professor from April 2016, as Project Associate Professor from 2023.

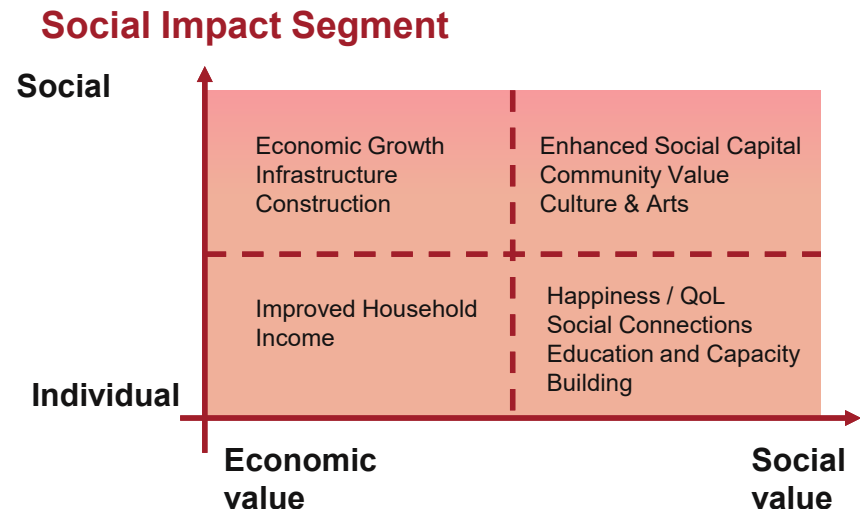
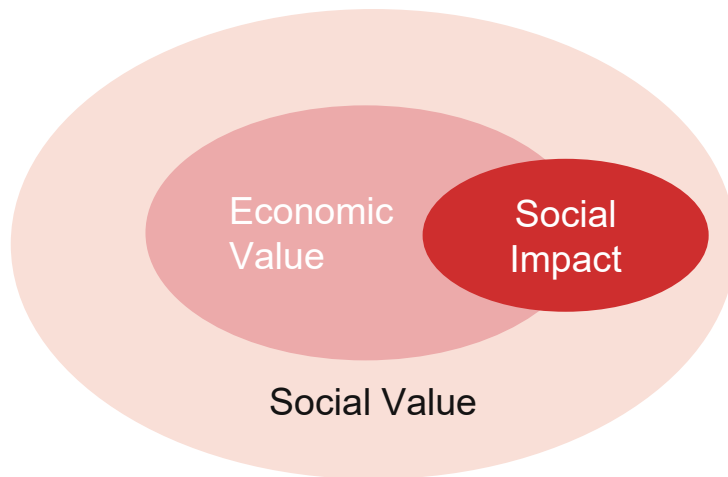
Ken also works for AVPN as Japan Advisor to promote social investment and strategic philanthropy regionally.

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Areas of Social Impact

What is social impact?

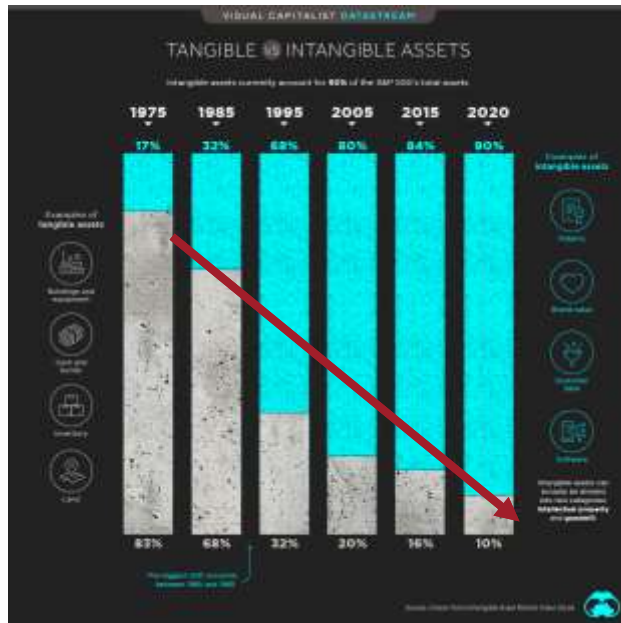
- Outcomes (short, medium, and long term), such as social and environmental "changes" and "benefits" resulting from the project or activity in question, including short- and long-term changes (Cabinet Office 2016).
- The social impact represents increased value of the business to society, not just its economic value.



Capitalization of "Social Value"

- implied by the increase in the ratio of intangible assets

Increase in the ratio of intangible assets in the assets of S&P 500 companies



- Intangible assets of S&P 500 companies from 32% in 1985 to 90% in 2020
- Although a simple comparison with Japan is not possible, intangible assets already account for the majority of the criteria for evaluating corporate value.
- Brand value and added value, represented by intangible assets, go beyond direct benefits to customers, and the market is now evaluating "social value" in terms of the impact on society as a whole.

Exhibit: " The Soaring Value of Intangible Assets in the S&P 500", Visualcapitalist.com, November 12, 2020"

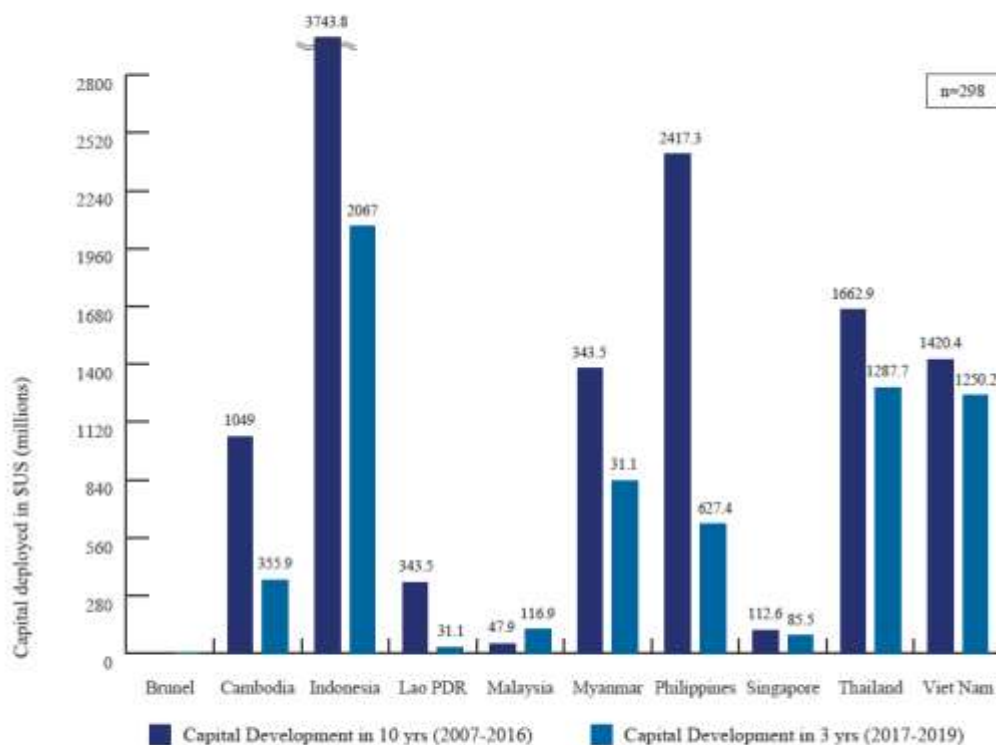
<https://www.visualcapitalist.com/the-soaring-value-of-intangible-assets-in-the-sp-500/>

Overview of impact investment practice in ASEAN

- Capital deployed by country (2007-2016, 2017-2019)



Figure 14: Impact investment capital deployed in ASEAN, 2007 – 2016 and 2017 – 2019



Sources: Prasad et al. (2020); GIIN and Intelicap (2018)

Impact Investment Landscape in Southeast Asia

From 2007 to 2019, \$1.99 billion was invested in ASEAN in impact deals

- Between 2007 and 2017, at least 60 different PIIs have invested USD 904 million in 225 deals and almost a dozen DFIs have invested USD 1.13 billion in 289 deals in Southeast Asia. Indonesia and the Philippines have seen the most impact investment activity, and Vietnam, Myanmar, and Cambodia are seeing increasing investor interest.
- From 2017 to 2019, 59 PIIs have deployed USD 432 million through 159 deals and 9 DFIs deployed USD 6.23 billion through 141 deals
- In total, \$1.33 billion(6.6%) was invested by PIIs to 484 deals and \$18.53(93.4%) billion was invested in 430 deals

Indonesia, Thailand and Vietnam as top three major destinations (2017-19)

- Limited number of impact investment in Cambodia, Laos and Singapore

Development Financial Institutions (DFIs) are a major source of funds (2017-19)

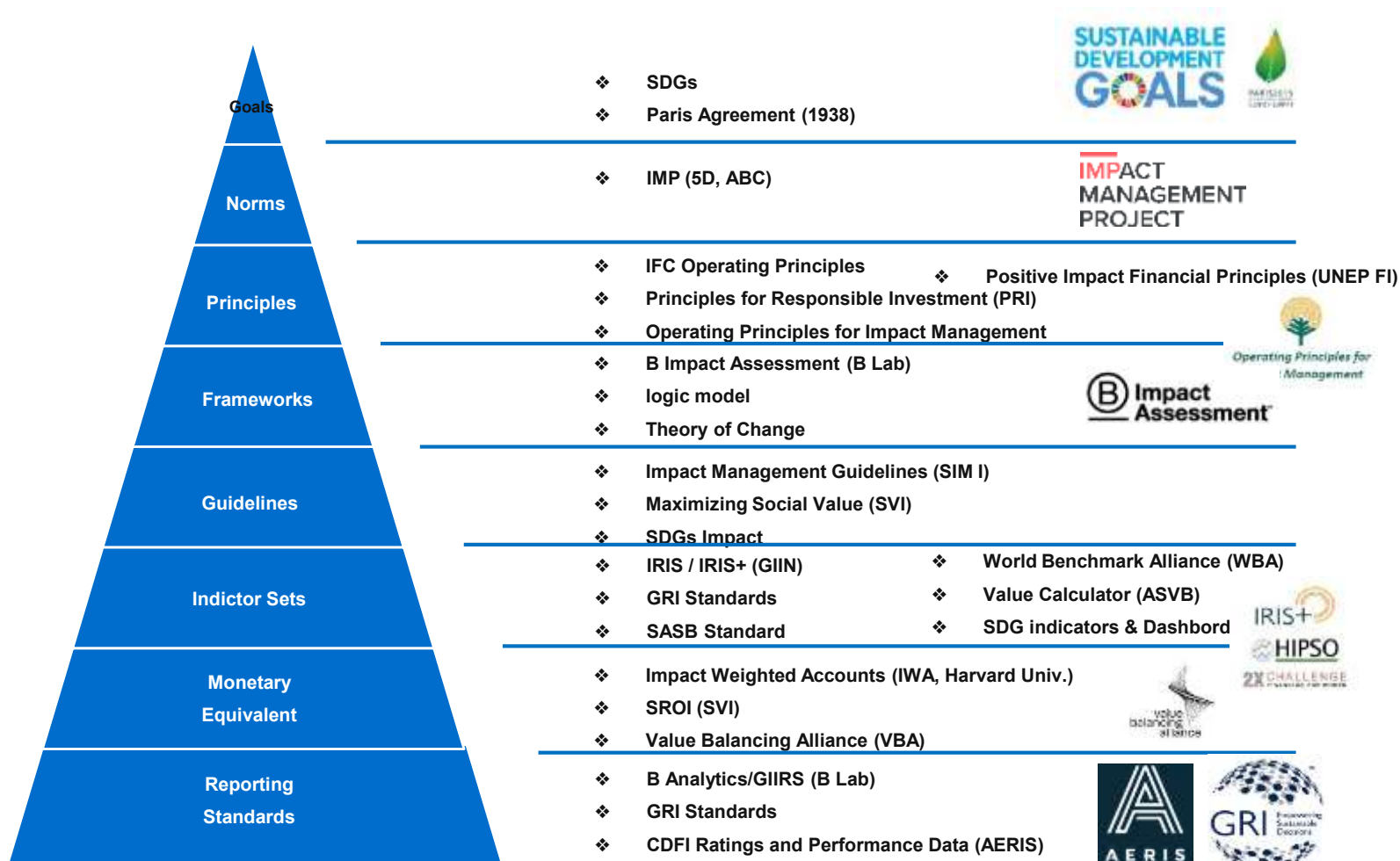
- For the three years in 2017-19, \$6,226.3 was invested by DFIs, which were primarily ADB and IFC and \$430.9 was invested by a number of PIIs
- Impact capital from DFIs is primarily deployed into the financial services, energy and healthcare sectors, with only 30% of DFI investments flowing into other sectors including agriculture, infrastructure, services, retail etc. Impact capital from DFIs is primarily deployed into the financial services, energy and healthcare sectors, with only 30% of DFI investments flowing into agriculture, infrastructure, services, retail etc.

Fintech is a major focus in ASEAN for impact deals by PIIs

- Microfinance used to be a major sector (80% of total deals) in the past, however, the investment focus for PIIs has shifted more towards fintech. of the investments flowed into online financing/insurance marketplaces, crowd funding and P2P lending platforms, digital payments and credit scoring solutions. solutions.

Different Layers on Impact Management Approaches

Different approaches to evaluating social impact have been developed, and these components of the methodologies are converted into initiatives such as IMP or SDG Impact Standard



Source: SVJ, based on SIMI data

Development of Social Impact Management Frameworks

Since the latter half of the 2010s, international organizations and private foundations have been working together to build consensus on principles, approaches, and indicator sets to ensure mutual compatibility of social impact assessment and management.



- An international initiative on impact management involving organizations involved in setting global social impact standards, such as UNDP, IFC, OECD, PRI, SVI, etc. PRI, SVI, etc.
- 5 Dimensions and other impact assessment norms since the 2018 launch, with over 2,000 investors participating



- The Rockefeller Foundation, UNDP, and Acumen Fund were involved in the creation of this impact investing intermediary.
- IRIS, a database of social impact indicators released in 2008, was renewed in 2018 and released as IRIS+.



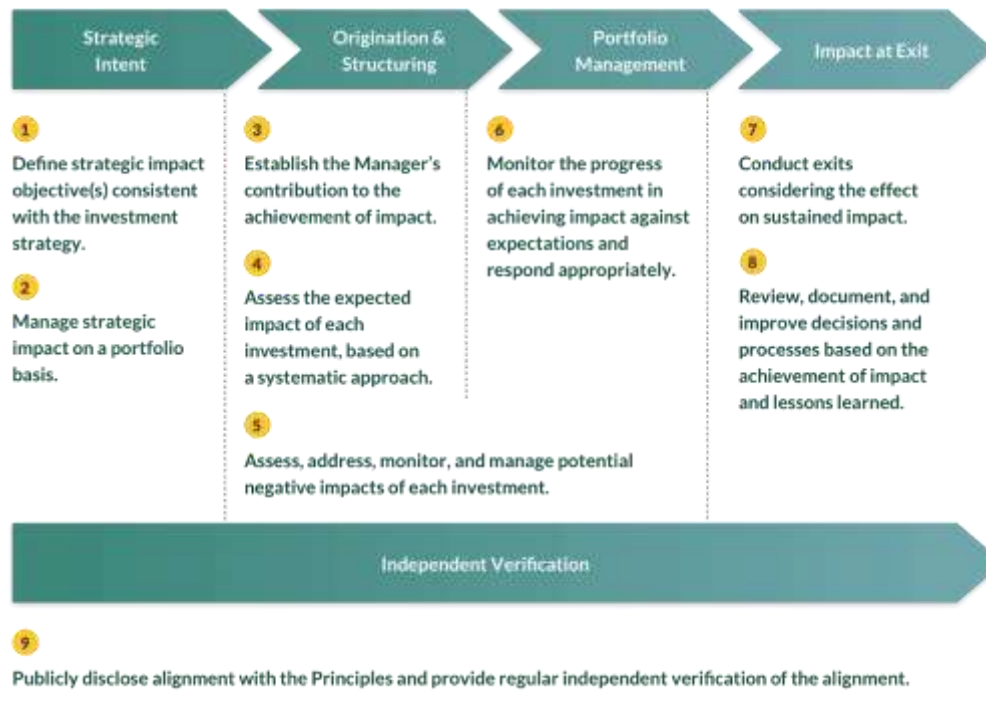
- IFC to present nine principles for impact investing at 2019 World Bank meeting
- Defined nine items that impact investing should apply in five areas: strategic intent, origination and structuring, portfolio management, impact on exit strategy, and independent verification



- UNDP, the United Nations development agency, in partnership with IMP, established the SDG Impact Standard for social impact management.
- Announced social impact criteria for three different targets: private equity investments, fixed income, and corporations

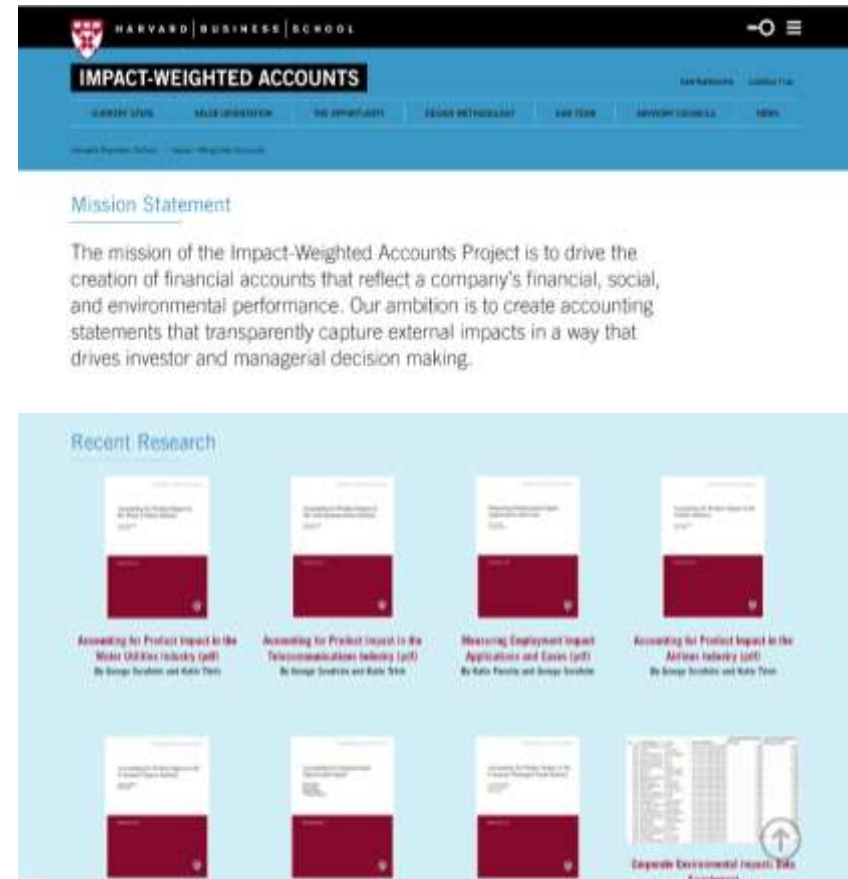
IFC Principles for Social Investment

- The International Finance Corporation (IFC), a member of the World Bank Group, has announced nine principles for impact investing, which have been signed by 135 institutional investors as of August 2021 including three Japanese investors
- A report was issued on the impact investing market as of 2020, with \$2.3 billion invested with the intent of social impact, of which \$636 million was with measurable impact



Impact Weighted Accounting Research

- A collaborative project of the Harvard Business School, the Global Steering Group (GSG), and the Impact Management Project (IMP) that aims to promote financial accounting that reflects the financial, social, and environmental performance of companies.
- Gathering ESG data using a combination of cutting-edge science, big data and algorithms, assigning a proven monetary value to that data, and representing it as an accounting entry that shows the company's impact on the world
- Although its widespread use remains to be seen, the project is attracting worldwide interest as a way to develop a methodology for reporting social impact and financial impact in an integrated manner.



Emergence of the SDG Impact Standard

- SDG Impact is a framework launched by UNDP in 2020 to promote the management of social impact with consideration of launch of “Impact Seal” certification of enterprises, PE funds and bond issuers
- SDG Impact consists of three parts, SDG Impact Management Standards, SDG Impact Intelligence and SDG Impact Facilitation



The Structure of SDG Impact Standard

1. Strategy

The business shall, in its purpose and strategy, promote sustainable development and actively contributing to the achievement of the SDGs

2. Management Approach

Businesses need integrate impact management to ensure sustainable
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3. Transparency

Operators shall disclose how their active contribution to sustainable development and the achievement of the SDGs is integrated into the fund's objectives, strategy, operational approach, governance and decision-making, and report on its performance, at least annually

4. Governance

Businesses' commitment to contribute positively to sustainable development and the achievement of the SDGs is strengthened through their governance practices practices



Source: SDG Impact Standards (2020)

The Structural Position of the SDG Impact Standard

SDG Impact Standard



Source: UNDP and OECD

- The SDG Impact Standards are not intended to be used stand alone, but in conjunction with the high level principles of Impact Management, Impact Management Tools and external disclosure standards.
- The purpose of this standard implementation is to provide a Decision Making Framework that has been put to work to date.
- SDG Impact Standards are interchangeable with frameworks such as the Impact Management Project (IMP) and other important concepts and frameworks.

Implication of SDG Impact Standard towards Mainstreaming Social Impact into Capital Market

A Paradigm Shift from Impact Evaluation to Impact Management

- In the previous discussions, the focus of impact discussion has been on how to "measure" and disclose the social impact of business.
- In impact management, the question is how to integrate social impact into management norms, and this is comprehensively assessed by the certification. In impact management, the question is how to integrate social impact into management norms, and this is comprehensively assessed by the certification system.

From Project Level Assessment to the Management Norms

- While previous impact evaluations focused on business units, SDG Impact and other certifications cover companies and funds.

Integration of Management principles, Decision-Making Frameworks, Evaluation Tools and Disclosure Standards

- It vertically and systematically integrates different elements, from high-level concepts to tools for practice, that have been developed by different organizations.

Certification(Seal) on Social Impact based on SDG definitions

- The debate on legitimacy of what "Social Impact" means reaches to a conclusion and Impact Management based on the social nature of the SDGs, as agreed internationally, is expected to set a standard to "optimize" social impact