

Study of Social Entrepreneurship and Innovation Ecosystems in South East and East Asian Countries

Country Analysis: Japan

The Japan Research Institute

Office of the Multilateral
Investment Fund

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CONTENTS

1. Country Overview.....	1
2. Overview of Social Entrepreneurship and Social Innovation Movement.....	6
3. Public Policy for Social Entrepreneurship and Social Innovation	10
4. Key Ecosystem Players	15
5. Examples of Social Enterprises.....	21
6. Final Reflections.....	23

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Tomohiro Hamakawa, Co-founder & Managing Director of Earth Company

1. Country Overview

1.1 Country Profile¹

Table 1: Fact Sheet of Japan

Population (2014)	127,131,800
GDP per capita (current USD, 2014)	36,153
Rural population (% of total population, 2014)	7.0%
CO2 emission per capita (metric tons, 2011)	9.3 tons
GINI coefficient (2011)	0.38
Population below national poverty line (%)	16.0%
Unemployment (% , 2014)	3.7%
Social Progress Index (2016) ²	86.54 (14th out of 133 countries)

1.2 Economic and Social Overview

Japan maintained long-term economic expansion over a few decades from the rapid growth in the 1960s and 1970s until its economic bubble burst in the year 1990. This impressive economic growth was driven mainly by the manufacturing industry that absorbed the majority of domestic employment, proactively invested in technology development, and boasted very high industrial competitiveness. Along with the development of the manufacturing industry, however, environmental pollution particularly around major industrial sites exacerbated, resulting in social concerns over adverse effects on agricultural products and human health. Motivated by the concerns over environmental issues, citizen groups and companies started to implement environmental and energy-saving measures.

The manufacturing-led economic growth also resulted in mass migration from the rural agricultural industry to the urban manufacturing industry. Furthermore, the improvement

¹ Population, GDP per capita, Rural population, CO2 emission per person, and Unemployment. Available at: (<http://data.worldbank.org/indicator/>) [Accessed 28 June 2016], GINI coefficient. Available at: (<http://www.mhlw.go.jp>) [Accessed 28 June 2016], Population below national poverty line. Available at (<http://stats.oecd.org/>) [Accessed 28 June 2016]

² Michael Porter's Social Progress Index measures multiple dimensions of social progress, benchmarking success, and catalyzing greater human wellbeing (<http://www.socialprogressimperative.org/data/spi>) [Accessed 28 June 2016]

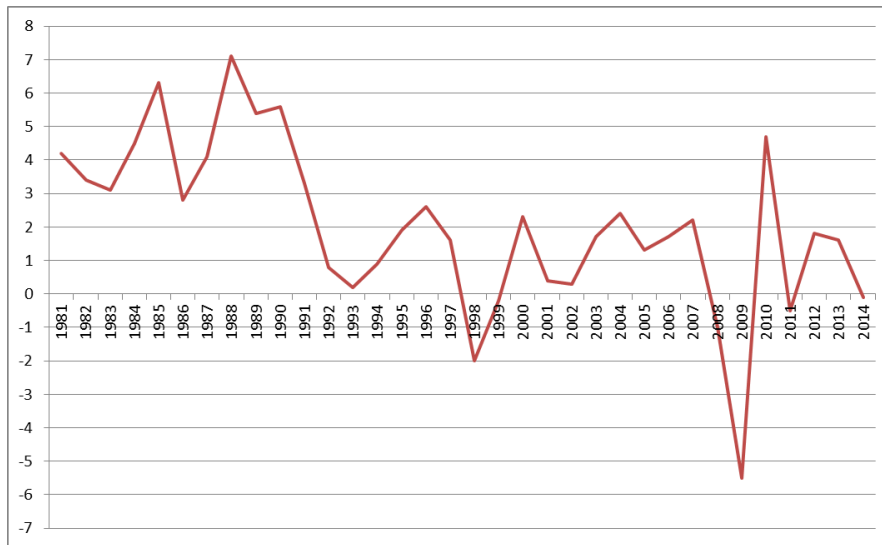
in the quality of life led to increased demand of more diverse food. Unable to meet this increasing demand solely by domestic agricultural and livestock production, the Japanese economy's dependence on food import surged over time.

With the social advancement of women in terms of workforce participation, fertility rate naturally dropped and the demographic structure started to shift. The social changes that occurred during 1970s and 1980s became the seeds of social challenges that Japan faces today.

The bubble economy in the 1980s inflated by the extraordinary increase in stock and real estate prices burst in the year 1990, suddenly stalling the economic growth that once characterized post-war Japan. Since then the Japanese economy has remained stagnant and even experienced recession due to certain unavoidable factors such as the Asian financial crisis in 1997 and the global economic downturn triggered by the bankruptcy of Lehman Brothers in 2008. During this period, the Japanese government underwent frequent changes in administration and, as a result, many bills that passed the National Diet ended up being left untouched and unenforced. This caused a vicious political-economic cycle that essentially prolonged the economic stagnation.

Due to the extended economic stagnation since 1990, the national debt combining treasury bonds and short-term government bonds bloated to an unprecedented level of approximately USD 10 trillion, roughly USD 83,000 per capita, as of March 2016. The economic stagnation not only undermined personal consumption and induced sluggish growth in manufacturing and capital investment, but also contributed to the destruction of Japan's traditional employment and salary system based on lifetime employment and seniority-based wages. As a result, the number of non-regular employees rapidly increased. Average families started to share the common sentiment that while wage does not increase regardless of effort, household expenses seem to only increase. In addition, given the frequent change in political leadership, the general public began to realize that actions to solve social challenges would not come from the government, but rather need to be self-initiated. This trend became particularly prominent among the younger generations; many Japanese social businesses in existence today originated under such circumstances.

Figure 1: Trend of GDP growth rate (%)

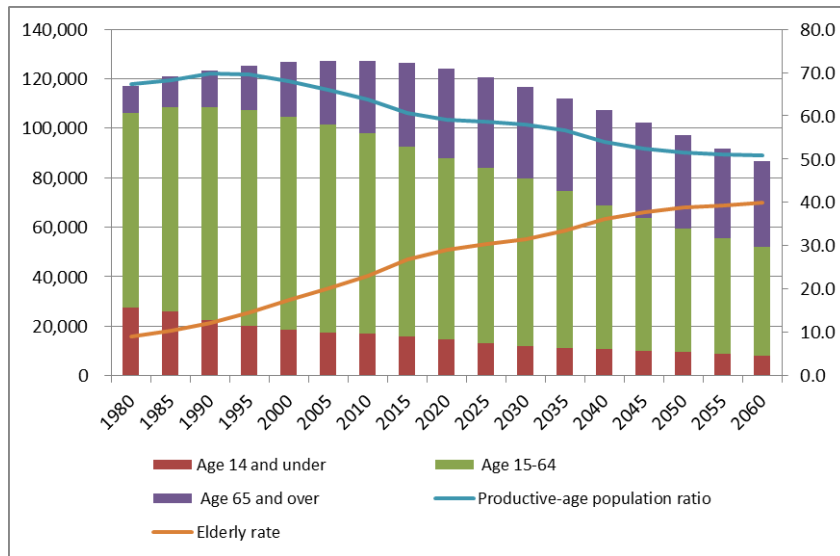


(Source: World Bank)

1.3 Key Social Challenges

Japan faces a myriad of social challenges some of which are common to advanced industrial countries, while others are more unique to the Japanese context given the declining birth rate and rapidly aging population. The birth rate has steadily fallen over the last couple of decades much similar to the economy and recorded the lowest rate of 1.26 in 2005. As a result of the steady reduction in birth rate, population growth rate also continued to decrease and the total population took a downturn after peaking at 128,080,000 in 2008. Meanwhile, Japan is one of the fastest aging societies in the world, with one in four people above 65 years in 2014.

Figure 2: Population trend in Japan³ (1,000 people, %)



(Source: Population Projection for Japan (January 2012) by the National Institute of Population and Social Security Research)

1.3.1 Increasing burden on child rearing and senior care

With the advancement of gender equality and increased workforce participation by women over the past few decades, more and more Japanese families have delayed having children that in turn led to a decline in birth rate. Children’s education cost, which has steadily surged year after year, is another factor depriving many households of options except for both the wife and husband to work and earn income. Meanwhile, the development of medical technologies has had a positive impact on extending life expectancy in Japan to the highest levels in the world, but this also places a greater need for the younger generations to support more of their parents and grandparents for a longer period of time. In order to cover the increasing cost of elderly care, the necessity for both the husband and wife to work never ceases to rise. Given the traditional role of women to care for their children and seniors, women’s greater workforce participation has resulted in major social issues as to how to address the shortage of human resources for childcare and elderly care.

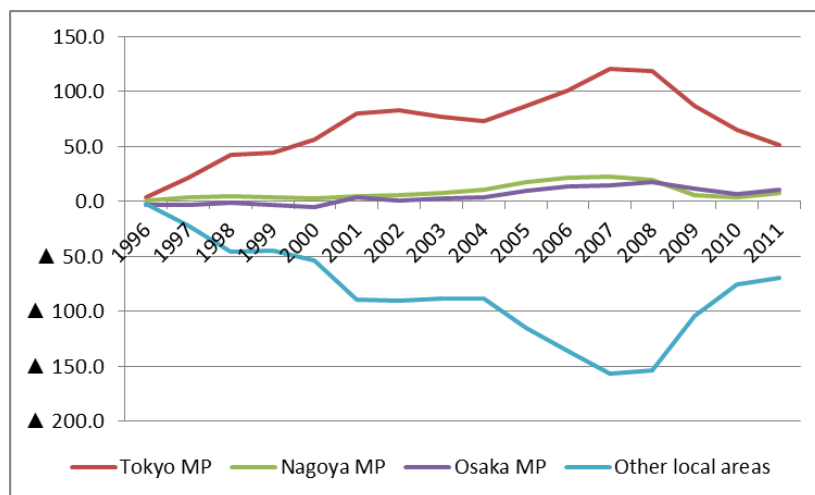
1.3.2 Weakening of regional economies

During the period of economic stagnation since the early 1990s, an increasing number of people, especially young people, migrated from rural areas to the three main metropolitan

³ Actual values until year 2015 and after are estimates.

areas – Tokyo, Osaka and Nagoya – to seek employment. This exodus of people from rural areas has placed a downward pressure on regional economies, particularly locally owned businesses. The withdrawal of service providers in retail, restaurants, entertainment, and medical services in particular hinders people living in these areas from accessing and obtaining goods and services they need. Additionally, the population drainage in rural areas renders certain local railway and route bus services unprofitable. Public transportation services have been terminated or reduced in frequency, which creates a situation in which people without their own vehicles face barriers to simply shop for their daily needs and visit hospitals. Life outside of the mega metropolises has only become harsher and more inconvenient over time.

Figure 3: Migration to the three major metropolitan areas (1,000 people)



(Source: 2014 White Paper on Small and Medium Enterprises in Japan)

Emigration out of rural areas and its associated decline in economic and industrial activities have also resulted in the reduction in tax revenues for local governments. This trend runs counter to the increasing social welfare costs given the rapidly aging society. Local government finance is only becoming severe over time.

1.3.3 Deteriorating community functions

Due to the declining birth rate and aging population, the number of people who engage in community-level activities, whether driven by local government or civil society, is reducing. As a result, the function of local communities to provide peer-to-peer support is also weakening. Furthermore, the number of volunteer members of local fire stations continues to fall, leading to a deterioration in disaster prevention and response capacities of

communities. Decline in the number of children is accelerating the consolidation and closure of public schools, which used to serve as places for people to come together for local events and festivals. The shift in demographics also creates challenges for local communities to pass on traditions and customs to the next generation.

2. Overview of Social Entrepreneurship and Social

Innovation Movement

The history of social businesses in Japan can be traced back to the civil society movements that became active in the 1970s. These movements can be attributed to a combination of factors associated with the rapid economic growth, including the following three:

- (a) The emergence of a gap between the public support system and the people's social welfare needs;⁴
- (b) The concerns over environmental and public health issues caused by industrial pollution involving mercury and cadmium, as well as sulfurous acid gas and photochemical smog; and
- (c) The rise of recycling and consumer movements triggered by the oil crises in 1973.

Several pioneers engaged in civil society movements in the 1970s and 1980s established organizations that would serve as predecessors of non-profit organizations in Japan, which in turn would later lead to the establishment of more business-oriented entities called social enterprises. Prime examples of social purpose organizations established in this era include Daichi wo Mamoru Kai (a pioneer in home-delivery of organic agricultural products) and Care Center Yawaragi (an innovative provider of home-based care for the disabled and elderly). In terms of nomenclature, many entities that sprung in this era preferred using concepts and methodologies different from those used by the government and therefore referred to themselves as non-governmental organizations instead of non-profit organizations to distinguish themselves.

⁴ In post-war Japan, government-provided social welfare focused on providing people with public assistance on the basis of short-term poverty alleviation measures. Main public programs included the Public Assistance Act (1946), Child Welfare Act (1947) enacted for the purpose of protecting children, Act on Welfare of Physically Disabled Persons (1949), and Social Welfare Services Act (1951).

The major turning point in the sector took place in 1998 through the enforcement of the Act on Promotion of Specified Non-profit Activities, the so-called Nonprofit Act. This milestone was triggered by the Great Hanshin-Awaji Earthquake, a devastating quake in January 2005 that claimed more than 6,000 lives. In response to the disaster, a total of 1,170,000 volunteers came to the disaster-hit areas to engage in relief activities over three months, which averages to about 20,000 volunteers per day; donations for disaster relief poured in from all over Japan and exceeded USD 1.5 billion, an unprecedented scale in history. Suffering from substantial damage to physical infrastructure and administrative capacity, local government bodies were unable to receive and manage volunteers and relief supplies. Instead, nonprofits and international NGOs stepped in to take leadership roles in connecting supply and demand in accordance with the ever-changing needs in disaster-hit areas.

In effect, the Great Hanshin-Awaji Earthquake clearly demonstrated two things: 1) the fact that citizen-led initiatives of disaster relief and peer-to-peer support in and out of disaster-hit areas had already been developed to a level that surprised the public; 2) the fact that government agencies are not able to promptly respond to unprecedented natural disasters no matter how carefully the functions have been defined. Another structural issue that the disaster revealed involves the legal status of organization: many groups that responded to the disaster were not legally registered and could not receive public funding to sustain their work on the ground. These experiences led to the introduction of the seminal Nonprofit Act that defined the legal boundaries of charitable organizations.

When the concept of social enterprises was first introduced from Europe and North America to Japan in the new millennium, governmental agencies expressed interest in the foreign idea. Having realized the important role that civil society played since the enforcement of the Nonprofit Act, the Japanese government set forth a new agenda called the “New Public” in January 2010. The intention behind this idea was to create a mutually-supporting vibrant society consisting of various entities including the government, citizens, and private sector to be responsible for serving as providers of public support. The Japanese government established the New Public Roundtable in the Cabinet Office inviting business leaders, non-profits, local government officers and academic researchers, assigned a new ministry in charge of public support, and started considering ways to promote social enterprises. However, with the change in political leadership, this initiative was discontinued and dissolved in 2012.

In the mean time, the Great East Japan Earthquake devastated the Japanese archipelago in March 2011. Many non-profits that had gained experience in disaster relief in the Great Hanshin-Awaji Earthquake became the earliest responders on the ground. An important characteristic of this round of post-disaster efforts was that relief workers, particularly the young ones, aspired to deliver support through business-oriented approaches rather than pure charity, giving birth to many social businesses in the disaster-hit areas. Since the 2011 disaster occurred before the change of government leadership, the concept of the New Public was reflected in the reconstruction efforts provided by the national government. For instance, the government emphasized the importance of cooperation among non-profits and administrative agencies from the early stages of reconstruction work and proactively provided support for social businesses promoting revitalization of regional economies. Thus, the Great East Japan Earthquake served as a major turning point for the national government and civil society to start cooperating towards the development of social enterprises.

There is no exact legal definition of social enterprises in Japan at the moment. However, the Ministry of Economy, Trade and Industry (METI) provides financial support to social enterprises which the agency defines as:

Businesses that see market opportunities in various social issues such as aging population, environment, childcare, and education, aim at solving them, and operate along the three criteria of social purpose, feasibility, and innovativeness.

(a) Social purpose: Serve the mission of addressing social challenges that require solutions.

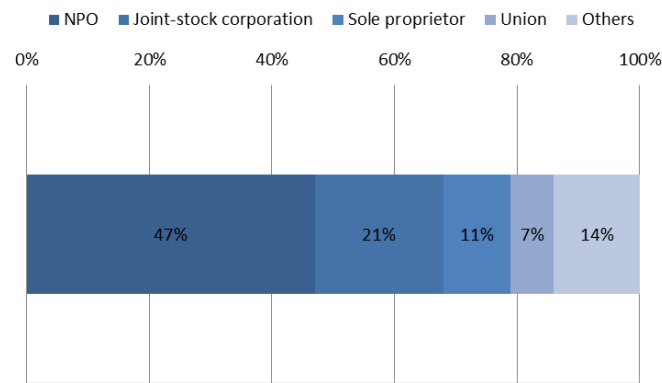
(b) Feasibility: Embody business principles and carry out business operations sustainably.

(c) Innovativeness: Provide novel products or services and create social value through them.⁵

As of 2011, the most common legal formats of groups that operate in practice as social enterprises are the following: nonprofits (47%), joint-stock corporations (21%), sole proprietors (11%), and unions (7%). The remainder belongs to other statuses (14%) including general incorporated foundations, public interest incorporated foundations, general incorporated associations, and public interest incorporated associations.

⁵ METI (2011). "Social Business Promotion Study Meeting Report"

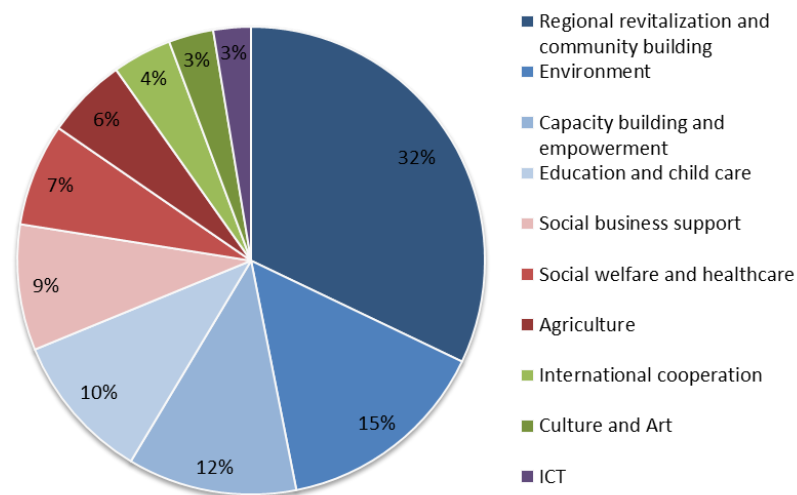
Figure 4: Legal formats of Japanese social enterprises



(Source: METI 2011)

In terms of sectoral focus, those groups considered to be social enterprises engage in a variety of areas according to the *Social Business Case Book* published by METI in 2011. For example, the area of regional revitalization and community building was the most common at 32%, followed by environment (15%), human resource development (12%), and education and childcare (10%).

Figure 5: Fields of activities of Japanese social enterprises



(Source: METI 2011)

According to a survey conducted by the Cabinet Office⁶, the number of social enterprises in Japan reached 205,000 as of 2014, and the total amount of additional economic output of social enterprises was valued at USD 160 billion. The number of paid employees reached

⁶ Cabinet Office (2015). "Survey on the scale of activities of stakeholders of mutually assisting society"

5,776,000, while the profits generated by social enterprises was estimated to be USD 104 billion. This survey relied on the following criteria for the definition of social enterprises:

- (a) Engages in solving and improving social issues through business processes
- (b) Primary objective of business is to solve social issues, not to seek profit.
- (c) Profits are used not as dividends for investors/shareholders but for reinvesting into the business
- (d) The ratio of dividends for investors/shareholders is kept below 50%
- (e) The total profit made from the business can be no less than 50% of the overall profit
- (f) Profits from commissioned business of public sector can be less than 50% of the overall profit
- (g) Profits from government-commissioned work should not be greater than 50% of the overall profit

3. Public Policy for Social Entrepreneurship and Social Innovation

3.1 The Nonprofit Act

As described in the previous chapter, there is no exact legal definition of social enterprises in Japan at the moment. The Japanese legal system for nonprofit organizations that can conduct for-profit businesses is extremely complicated, with approximately 180 laws that serve as the basis for establishing such organizations. This report takes five registration types of nonprofit organization as the majority of social enterprises (see table below).

Table 2: Main operators of social enterprises in Japan

	Nonprofit organization	General incorporated association	Public interest incorporated association	General incorporated foundation	Public interest incorporated foundation
Field of activity	Contribution to promoting the public interest	No specific limitations	Public-interest activities in the areas of academia, art, and charity.	No specific limitations	Public-interest activities in the areas of academia, art, and charity
Period of time required for registration	About 5 months	2-4 weeks	2-4 weeks	2-4 weeks	2-4 weeks
Number of members required for registration	10 or more	2 or more	2 or more	1 or more	1 or more
Number of trustees required for registration	4 or more	2 or more	3 or more	7 or more	7 or more
Amount of capital required for registration	0	0	0	USD 30,000	USD 30,000
Taxation	Taxed (exempted for profits made by business other than those specified by the taxation law)	Taxed (at the same rate as for-profit companies)	Exempted in principle	Exempted in principle	Exempted in principle
Tax benefits to donors⁷	Yes (but only for donations to certified nonprofits)	No	Yes	Yes	Yes
Obligation to report⁸ to relevant government agency	Yes	No	Yes	No	Yes
Other comments			Can be “demoted” to general incorporated association if judged by the relevant authorities for not pursuing public interests	To be dissolved if the amount of total assets falls below USD 30,000 for two consecutive years	Can be “demoted” to general incorporated association if judged by the relevant authorities for not pursuing public interests

A nonprofit organization in Japan is defined as a legal entity that meets the necessary

⁷ Donated enterprises and individuals are able to receive preferential treatment such as exemption from tax.

⁸ A business report and statement of accounts

criteria stated in the Nonprofit Act enacted in 1998. To establish a nonprofit entity, an organization first needs to submit a registration application to the relevant authorities. Once approved, an entity becomes an incorporated nonprofit and is considered to possess the capacity to manage issues related to rights and obligations including conclusion of contracts and registration of real estate properties for instance. An incorporated nonprofit can conduct businesses aiming at obtaining profits, yet there is no concept of dividends and the nonprofit is required to allocate its business profits to social purpose activities. Similar to other legal entities, the incorporated nonprofits are subject to taxes including corporate tax, consumption tax and local government taxes.

There is a special subgroup within nonprofits known as certified nonprofits satisfy a stricter set of requirements regarding governance, management, activities, and alignment with public interests. Once a nonprofit becomes certified, all donations become tax deductible, thus creating an incentive for individual and corporate donors. This new category of nonprofits was instituted three years after the enactment of the 1998 Nonprofit Act in order to stimulate donations to nonprofits with weak financial bases. However, the conditions to obtain the certified status are strict; only 0.5% of all nonprofits are certified nonprofits as of 2012 when the Nonprofit Act underwent revisions.

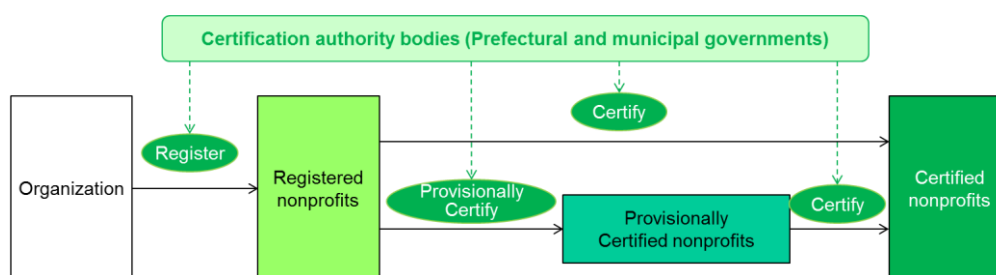
The above-described Great East Japan Earthquake of 2011 triggered the revision of the Nonprofit Act in 2012. During the initial period of reconstruction activities, individual donors increasingly felt that direct donations to nonprofits activities have more immediate effects than contributing in the form of *gienkin* – a donation system that is facilitated by the Japanese Red Cross and media agencies and ensures equitable distribution of money to those affected but the deliberation process takes a long time. However, a large majority of nonprofits were unable to offer tax deduction benefits to donors and therefore these nonprofits voiced their concerns over the inability to continuing providing need support on the ground. In response to such circumstances, the Nonprofit Act was revised aiming at increasing the number of certified nonprofits and relaxing the certification conditions. Major revisions include the three points below.

- The authority of certification was transferred from the National Tax Administration Agency to local government bodies including the prefectural and municipal governments in order to expedite the application process.
- An alternative, less rigorous process called “provisional certification” was introduced for nonprofits in operation of less than 5 years and satisfy a set of certain criteria.

Provisional certification comes with tax deductible benefits for donors and lasts for three years, after which organizations can apply to become a fully certified nonprofit.

- Nonprofit accounting standards were stipulated in order to better communicate the financial standings of nonprofits and therefore distinguish credible, high-performing entities from others.

Figure 6: Revised certification process



(Source: Certified nonprofit SEEDS)

The revision of the Nonprofit Act succeeded in doubling the number of certified nonprofits for one year. The number has been steadily increasing since then, with 955 certified nonprofits accounting for 2% of all nonprofits as of March 31, 2016.

3.2 Revision of the Credit Guarantee System

In Japan, non-profit organizations had long been unable to receive loans. They have been deemed to lack credit worthiness and could not be considered for credit examination. However, with the rise of profitable social businesses contributing to economic growth and local employment, some advocates requested revisions of the regulations surrounding fundraising. In addition, from around 2014, the Japanese government became increasingly interested in nonprofits as builders of unique regional economies and local cultures, and the National Diet began deliberations on providing support to nonprofits as business operators equivalent to small and medium enterprises (SMEs).

In response to such circumstances, the Small and Medium Enterprise Agency and the Japan Federation of Credit Guarantee Corporations (JFCGC) took leading roles in deliberating the possibility to expand the target of the credit guarantee system from a sole focus on SMEs to nonprofits. As a result of the deliberations, revisions took place in August 2015 for nonprofits to become eligible to apply for loans starting on October 1, 2015. Nonprofits had long awaited this game-changing revision in regulations. As of February 2016, 166

guaranteed loans have been approved for nonprofits, with a total of USD 130 million in value. The amount of guaranteed credit doubled within three months of the revision⁹.

3.3 METI's Role in Supporting Social Enterprises

Government support for social enterprises has been spearheaded by the Ministry of Economy, Trade and Industry (METI) in Japan. Within the ministry, the Social Business Study Group established in 2008 has taken leadership in the deliberations on the definition and development of social enterprises. In order to promote social enterprises in the country, METI has published case studies on 55 leading social businesses in 2009 and the Social Business Case Book in 2011.

With improved awareness in the government and among the public of the important role of social enterprises, METI has recognized social businesses as service providers that support local communities.¹⁰ Currently, METI is the key public driver to enhance social businesses in Japan.

Table 3: Study and surveys conducted by METI to enhance social business

Name	Fiscal year	Content
Social Business Study Group	2007	Comprised of social business representatives as well as academic experts, intermediaries, financial institutions, and large corporations. Summarized a) the current status of social business in Japan, b) issues for future growth, and c) solutions for the issues.
Social Business Evaluation Method Working Group	2008	Compiled information necessary for matching the needs of social businesses and their main supporters such as intermediaries, local governments, companies, and individuals; summarized findings and viewpoints for evaluation of social business
Social Business Promotion Initiative	2008-2009	Planned and implemented promotional activities in cooperation with social business promotion councils established at the local level.
55 Leading Social Businesses in Japan	2009	Published case studies on the top 55 social enterprises based on public nominations.
Social Business Statistics and Legislative Review	2010	Proposed recommendations on statistics for analyzing social businesses and on their legal personalities.
Social Business Case Book	2011	Compiled 121 cases of social businesses through collaboration with various entities
Social Business Promotion Study Group	2011	Summarized promotion efforts at national and regional levels and made recommendations.

⁹ Nikkan Kogyo Shimbun (February 18, 2016).

¹⁰ While METI also provides support to Japanese social enterprises operating in emerging and developing countries, in this report, social businesses in this report refers to those addressing domestic social issues in Japan.

Social Business Case Book: Towards Reconstruction	2013	Gathered successful models of social businesses that contributed to the reconstruction after the Great East Japan Earthquake.
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Since 2008, METI has also taken concrete initiatives to foster the development of the social enterprise ecosystem. For example, METI has been actively engaged in nationwide information dissemination, promotion of personnel exchange, and provision of financial support towards the creation and development of intermediaries as well as new social businesses in disaster-hit areas. Specific examples are summarized below.

Table 4: Main public support projects of METI

Project name	Fiscal year	Content
Intermediary Capacity Strengthening for the Vitalization of Regional New Business	2007-2010	Supported high quality intermediaries and strengthened the capacities of existing intermediaries.
Social Business National Forum	2008-	Aims at the sustainable development of social businesses through nationwide information dissemination of advanced social business cases and related public measures, promotion of relevant personnel network.
Social Business Know-how Transfer & Support	2008-	Transfers social business models and know-hows to other regions to stimulate new community businesses.
Social Business Consortium for New Business Creation and Development	2011-	Supports social enterprises and for-profit companies to form a consortium to create new social business ideas.
Social Business Intermediary Capacity Strengthening	2011-	Supports intermediaries to transfer schemes and know-how to similar players in other regions to create high quality intermediaries
Social Business New Venture Development	2012-	Supports operations of social business and community business operators to create new ventures in disaster-hit areas.

4. Key Ecosystem Players

This chapter describes the key non-government, ecosystem players that promote social entrepreneurship and social innovation in Japan.

4.1 Funders

Broadly speaking, the private sector offers three types of financial assistance to social enterprises in Japan.

The first type refers to financial assistance provided by quasi-public financial institutions including credit unions and the Japan Finance Corporation. While many credit unions offer loan programs designed for non-profits, in recent years some credit unions such as the Seibu Shinkin Bank and the Kyoto Shinkin Bank have launched loan programs clearly aiming at developing of social businesses. The Japan Finance Corporation also commenced a loan program for social business operators in February 2014.

The second type involves grants by private foundations. The largest stakeholder in this category is the Nippon Foundation that has supported social businesses in cooperation with credit unions and operates the Japan Venture Philanthropy Fund (JVPF) in partnership with Social Investment Partners. JVPF is Japan’s first large-scale venture philanthropy fund targeting social enterprises.

The third type refers to crowdfunding. One of the longest-established organizations in this category is Music Securities that launched a micro investment platform in 2009. READYFOR is another company that has rapidly emerged in recent years and has become Japan’s largest crowdfunding platform in just five years of operation.

In this section, financial support programs mainly aiming at disaster relief and reconstruction efforts are excluded.

Table 5: Key ecosystem players (Funders)

Name	Competitions/ Open innovation	Training	Incubation/ Acceleration	Research	Finance	Coworking	Key characteristics
Seibu Shinkin Bank					x		<ul style="list-style-type: none"> • A cooperative-like financial institution with a geographical focus on Tokyo and its surroundings. • Started a loan program in 2013 specialized in regional revitalization, targeting nonprofits and micro enterprises (unsecured, max USD 0.1 million per case). • Launched a loan program in 2013 for social businesses jointly with the Nippon Foundation and ETIC (max USD 0.5 million per case).

Kyoto Shinkin Bank					x	<ul style="list-style-type: none"> • A cooperative-like financial institution with a geographical focus on Kyoto and its surroundings. • Started a loan program in 2013 to cover capital and operational expenses for social businesses (max USD 50,000 per corporation). • Commenced a loan program in 2014 to support the expansion of social businesses jointly with a foundation named Shinrai Shihon Zaidan (max USD 0.2 million per corporation).
Japan Finance Corporation					x	<ul style="list-style-type: none"> • A special company under the jurisdiction of the Ministry of Finance. • Launched a loan program in 2014 aimed at new and young social businesses (max USD 0.72 million per case).
Nippon Foundation	x		x	x	x	<ul style="list-style-type: none"> • Japan's largest foundation with a total asset of USD 3 billion. • Provides financial support along with credit unions and intermediaries. • Held a competition on social businesses aiming to foster social entrepreneurship and social innovation in 2016. Provides grants in the amount of maximum USD 0.1 million to winners.
Japan Venture Philanthropy Fund			x		x	<ul style="list-style-type: none"> • Japan's first large-scale venture philanthropy fund established in 2013 to support the growth of social businesses and to expand their social impact. • Provides six-digit (USD) funding per case by combining grants, loans and investments.
Music Securities, Inc.			x		x	<ul style="list-style-type: none"> • An investment company that creates funds with social businesses and invites investors through its website. The fund size is five to six-digit (USD) per case.
READYFOR			x		x	<ul style="list-style-type: none"> • Japan's largest crowdfunding site, characterized by reward-based (donors receive rewards selected by project implementers) • Fundraised over USD 230 million in total since its establishment in March 2011. • Featured projects usually have budgets in the range of four to five digits USD.

4.2 Specialized Intermediaries

For social businesses in the start-up to early stages, there are two major intermediaries in

the Japanese ecosystem: Entrepreneur Training for Innovative Communities (ETIC) and Social Venture Partners (SVP) Tokyo.

Since its establishment in 1993, ETIC undertook various activities focusing on developing and providing support for young social entrepreneurs and gained a wide range of experiences as an intermediary. Many of the leading social enterprises in Japan today have received support from ETIC in their start-up stage.

Founded in 2003, SVP Tokyo is the first Asian chapter of the Social Venture Partners International headquartered in Seattle, US. SVP Tokyo supports social enterprises through financial assistance and provision of professional personnel including lawyers, accountants and business consultants. Observers have noted an integrated “coordination” between ETIC and SVP Tokyo in which ETIC develops and trains social entrepreneurs to initiate ventures, while SVP Tokyo provides financial and operational support.

From around 2010, intermediaries specifically engaged in social innovation started to emerge. For example, the nonprofit MIRATUKU creates a platform to promote dialogue among social enterprises and initiate cross-sector collaboration.

The emphasis on impact investment at the G8 Summit 2013 in London led to increased interest in social impact evaluation in Japan. In addition, feasibility studies of social impact bonds have been conducted since 2015. As a result, the concept of social return on investment (SROI) has rapidly spread especially in the central government. The SROI Network Japan played a key role in this increased awareness and focuses not only on assessment of social impact but also on the development of assessors.

Table 6: Key ecosystem players (Specialized intermediaries)

Name and region of influence	Competitions/ Open innovation	Training	Incubation/ Acceleration	Research	Finance	Coworking	Key characteristics
ETIC (Entrepreneur Training for Innovative Communities)		x	x				<ul style="list-style-type: none"> A nonprofit that promotes social entrepreneurship among the younger generations and creates communities to support such social entrepreneurs.
Social Venture Partners Tokyo		x	x	x			<ul style="list-style-type: none"> A nonprofit that provides funding and operational assistance to innovative businesses that work on solving social issues.
Japan Fundraising Association		x	x	x			<ul style="list-style-type: none"> A nonprofit that delivers training in fundraising for nonprofits, operates a certified fundraiser qualification system, and publishes white papers on the charity sector in Japan.
MIRATUKU	x		x	x			<ul style="list-style-type: none"> A nonprofit engaged in realizing open innovations and facilitating dialogues involving various sectors towards solving social issues.
Impact Hub Tokyo			x			x	<ul style="list-style-type: none"> A company that provides co-working spaces and creates communities consisting of entrepreneurs and persons involved in social businesses.
SROI Network Japan				x			<ul style="list-style-type: none"> A nonprofit that conducts R&D on methods to evaluate social impact including SROI and provides impact assessment services.

4.3 Academia

A handful of Japanese universities offer courses specializing in social businesses including studying cases of overseas examples, local governments initiatives, and nonprofit management. Among them, Keio University is considered to be the leading institution in developing social entrepreneurs. Even before Keio launched the social innovator course in 2009, the institution had been engaging students in developing and implementing ideas that would change society. As a result, many of the founders of leading social businesses in Japan are Keio alumni: e.g. Florence, Carepro, and Katariba.

In response to the rising interest in assessment of social impact, faculty at Meiji University has even created and spun out a consulting company specializing in assessment of social impact and CSR consulting.

Table 7: Key ecosystem players (Academia)

Name and region of influence	Competitions/ Open innovation	Training	Incubation/ Acceleration	Research	Finance	Coworking	Key characteristics
Keio University Graduate School of Media and Governance		x		x			<ul style="list-style-type: none"> Offers a social innovator course to study the theory and practice of social entrepreneur and methods to revitalize local communities.
Osaka City University Graduate School for Creative Cities		x		x			<ul style="list-style-type: none"> Offers an entrepreneurship course to acquire knowledge necessary for starting social businesses and basic business management methods.
Osaka School of International Public Policy (OSIPP)				x			<ul style="list-style-type: none"> Offers lectures on the theme of global public ethics and social innovations.
Meiji University Institute of Nonprofit and Public Management Studies				x			<ul style="list-style-type: none"> Conducts research on social impact assessment including domestic and overseas nonprofit sectors, public management, and SROI. Has an affiliate consulting company specialized in social impact assessment service.

4.4 Corporates

Soon after Professor Michael Porter put forward the notion of “Creating Shared Value (CSV)” in 2011, the number of Japanese enterprises engaged in CSV-inspired activities increased. While interest in social businesses rises in Japanese society at large, many traditional for-profit companies are still struggling to find effective ways to contribute to social causes and civil society activities. In contrast to many corporate programs, NEC’s Social Entrepreneurship School sets itself apart by offering its own resources and ICT networks to social entrepreneurs.

Table 8: Key ecosystem players (Corporates)

Name	Competitions/ Open innovation	Training	Incubation/ Acceleration	Research	Finance	Co-working	Key characteristics
NEC	x	x					<ul style="list-style-type: none"> In collaboration with ETIC, operates the Social Entrepreneurship School that engages in the development of students and young people to start and strategically manage a social enterprises.
IBM Pro Bono Program	x	x					<ul style="list-style-type: none"> Offers solutions to education-related nonprofits through formulation of fundraising measures and restructuring of existing businesses.
Mitsubishi UFJ Research & Consulting (MURC)	x			x			<ul style="list-style-type: none"> Offers a Social Business Support Program as part of its CSR activities. For six months, MURC consultants provide pro bono support to social enterprises selected through a business contest.

5. Examples of Social Enterprises

This chapter provides an overview of leading social enterprises in Japan that were selected based on the following three criteria; a) serves the mission to solve a social issue in Japan, b) has established a sustainable business model¹¹, and c) is recognized by domestic opinion leaders to be potentially leading to social innovation.

Table 9: Example of social enterprises in Japan

Name	Legal Format	Year established	Key characteristics	Website
Daichi wo Mamoru Kai	Joint-stock corporation	1975	<ul style="list-style-type: none"> Provides home delivery of organic agricultural products and additive-free food to members. 	http://www.daichi-m.co.jp
Irodori	Joint-stock corporation	1986	<ul style="list-style-type: none"> Operates a business to grow, ship and sell seasonal leaves and flowers used for decorating Japanese cuisine. Supply comes from mountainous regions where employment opportunity is limited. 	http://www.irodori.co.jp/

¹¹ The business model that ensures to make both an operational profit and social impact at least for several years.

			<ul style="list-style-type: none"> Actively employs elderly women to gather leaves and flowers from hills and fields. 	
Care Center Yawaragi	Nonprofit organization	1987	<ul style="list-style-type: none"> Provides around-the-clock, 24 hour-7 days-365 days home-based care for the disabled and elderly. 	http://www.yawaragi.or.jp
Katariba	Nonprofit organization	2001	<ul style="list-style-type: none"> Provides career education programs for high schools to encourage students to take an active decision decision of their future career. Lecturers are volunteer staff consisting of university students and working professionals. 	http://www.katariba.or.jp/
Florence	Nonprofit organization	2004	<ul style="list-style-type: none"> Offers home-based child care services (e.g., sick child day care, small-scale child care, and disabled child day care) 	http://florence.or.jp/
Sodateage Net	Nonprofit organization	2004	<ul style="list-style-type: none"> Provides employment programs for reclusive adolescents (suffering from acute social withdrawal) and counselling services for their caregivers, as well as general vocational education programs for high school students. 	http://www.sodateage.net/
Carepro	Joint-stock corporation	2007	<ul style="list-style-type: none"> Provides simple health check services at public spaces for a small fee of USD 5, targeting those not covered by robust corporate health insurance. It also provides 24-7-365 home-visit nursing services for the elderly and disabled. 	http://carepro.co.jp/
Madre Bonita	Nonprofit organization	2008	<ul style="list-style-type: none"> Offers pre- and ante-natal body care and fitness programs to mothers in order to empower women, preventing child abuse, and improve fertility rates. 	http://www.madrebbonita.com/
ShuR	Joint-stock corporation	2008	<ul style="list-style-type: none"> Provides remote sign-language interpretation services and online sign-language dictionary. The founder was selected by the Ashoka Foundation as the first Ashoka fellow in East Asia. 	http://shur.jp/
Homedoor	Nonprofit organization	2010	<ul style="list-style-type: none"> Offers technical training in bicycle and umbrella repair for homeless people as an intermediate step towards full-time employment. 	http://www.homedoor.org/

6. Final Reflections

6.1 Key Milestones of Ecosystem Development

The development of the Japanese social enterprise ecosystem can be characterized by two milestones.

The first milestone refers to the establishment of the Nonprofit Act in 1998 after the Great Hanshin-Awaji Earthquake. Obtaining legal status enabled nonprofits to not only receive public grants and subsidies but also engage in contractual businesses which was significant in strengthening the financial sustainability of their activities. The Nonprofit Act also contributed to the birth of intermediaries specialized in nonprofit support. In essence, the Act created an early growth period of the ecosystem.

The introduction of the concept of social enterprise from Europe and North America was also important to change gears of social entrepreneurship. Due to the prolonged economic stagnation and frequent change in political leadership in the 2000s, Japanese society at large, but particularly the youth, strongly felt the necessity to solve the domestic social issues without relying on the government and discovered social enterprises as a means to achieve that. This trend is demonstrated by the fact that many of the leading social enterprises were established in the past 15 years and founded by the younger generation. This period also experienced a rapid rise in the number of nonprofits with income generating businesses, that in turn led not only to an increase in the number of financiers (e.g. credit unions and foundations) but also to the emergence of intermediaries (e.g. SVP Tokyo). As such, the ecosystem was enhanced significantly during this period.

The second milestone refers to the Great East Japan Earthquake in 2011. By then, the ecosystem matured to a level that it managed to provide comprehensive support to a wide variety of nonprofits and social enterprises. This readiness served as the foundation for the flourishing of social businesses for disaster relief and reconstruction efforts in 2011 and beyond. The private sector was also able to swiftly respond to the disaster needs all thanks to the experience from the Great Hanshin-Awaji Earthquake 16 years prior. In addition, government agencies proactively promoted social enterprises and endeavored to develop models of good practices and know-how jointly with private intermediaries such as the Nippon Foundation and ETIC. Through these efforts, the ecosystem matured even further.

After the Great East Japan Earthquake, unique ecosystem players emerged that promoted social businesses such as the Impact Hub Tokyo, Readyfor, and the SROI Network Japan. These entities contributed to the diversification of support for social enterprises, particularly in accelerating the startup of new ventures.

6.2 Challenges Going Forward

Based on discussions with the key ecosystem players, tackling the three issues below are necessary in order to promote social entrepreneurship and to create innovative practices and policies.

(a) Corporate partnerships

While traditional for-profit companies in Japan are indeed interested in supporting social enterprises, their level of cooperation remains low. Some companies offer pro bono services to social enterprises as part of their CSR efforts, yet there are only a handful of cases in which the core businesses of companies are directly involved in partnerships with social enterprises. This is because Japanese companies in general have a deep-rooted recognition that social businesses and nonprofits are “volunteer activities” and that they do not generate enough profits for serious consideration by larger corporations. These notions would need to be changed as stable, long-term corporate partnerships are critical for nonprofits and social enterprises to further refine their products and services and to expand their businesses. Opportunities to leverage human and technological resources of larger corporations are significant for social enterprises to improve brand recognition, induce behavior change, and expand social impact. At present, only a limited number of intermediaries actively promote corporate partnerships beyond pro bono activities; there is a need for new ecosystem players who can transform the corporate perception towards social enterprises and foster innovative partnerships.

(b) Injection of private funds

While certain ecosystem players offer funding to social enterprises, a large majority of them target entities with established business models and stable profit structures; their scale of funds is relatively small. As a result, social enterprises struggle to secure substantial investments necessary to expand their scale. The Japan Fundraising Association has been taking a leading role in persuading financial institutions to take much

needed measures such as utilization of dormant savings accounts and relaxing of loan conditions for nonprofits, however, the major financial institutions in Japan all remain hesitant to take such measures. In order to create large-scale change, it is necessary to facilitate the flow of bigger funds from private financial institutions by, for instance, including elements of impact investment in private wealth management and enhancing the system of credit guarantee by public institutions.

(c) Initiatives to foster social entrepreneurship at high schools and universities

Various ecosystem players indicate there are few opportunities for people to systematically learn about social entrepreneurship and social businesses. While Keio University and Meiji University offer relatively comprehensive courses and ETIC coordinates internships at social enterprises, students outside Tokyo have limited chance to learn. Meanwhile, due to the declining birth rate and aging population, social issues in rural communities are becoming increasingly diversified and acute. If universities outside of the major urban centers can start to actively provide opportunities for students to learn about social entrepreneurship, Japanese society could see the rise of social entrepreneurs who strive for solving social issues of regional economies and local communities.