



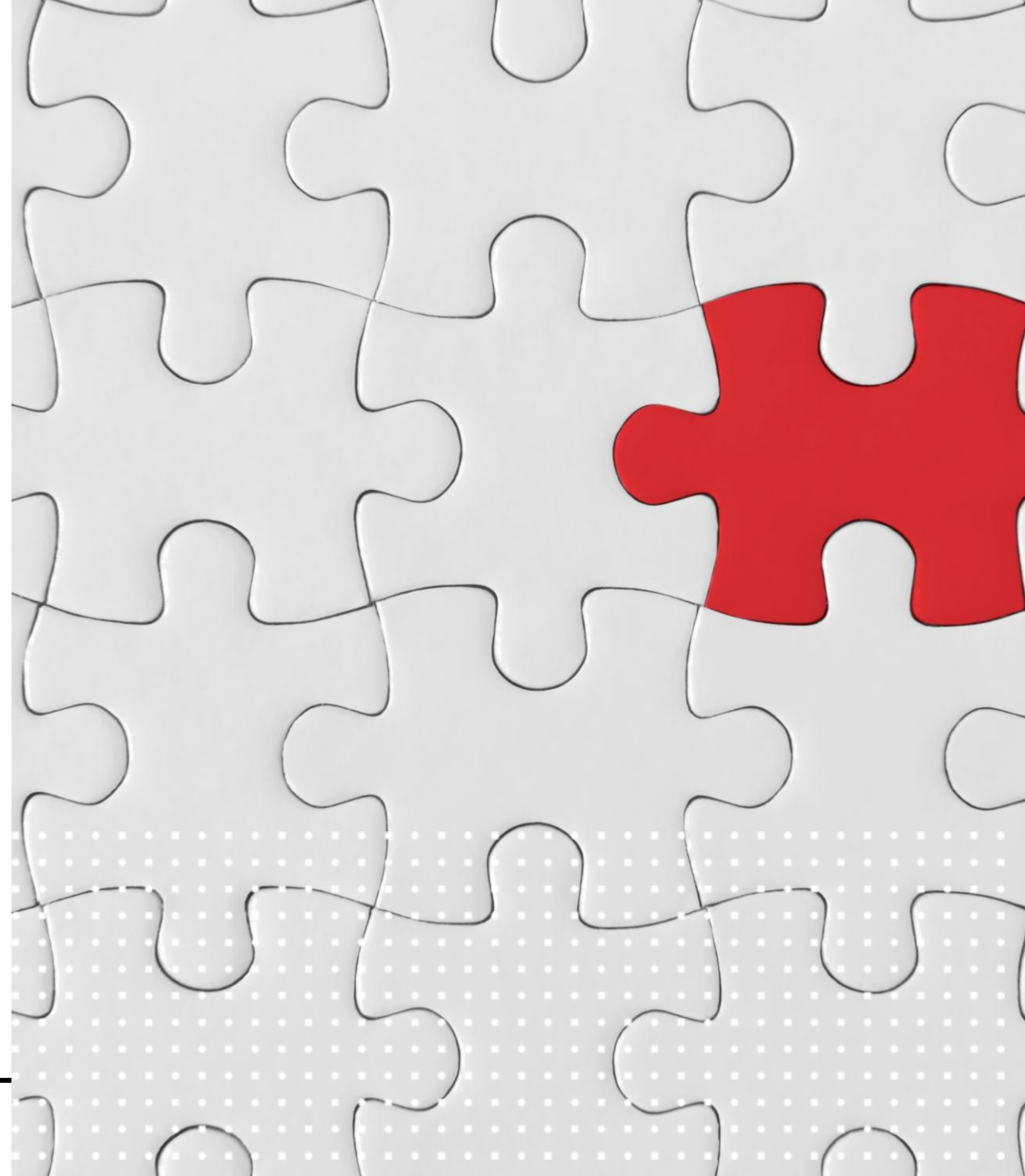
# Japan Social Investment Intermediary Study

*Exploring how USJF can catalyse impact-first investment and ecosystem transformation in Japan.*

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**November 2025**

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# Japan Social Investment Intermediary Study

A strategic study to identify pathways for USJF to promote ecosystem transformation and strengthen Japan's impact investment market.

## Objectives

- To develop a clear, actionable assessment of the opportunity for impact – assess whether a social investment intermediary in Japan could **drive change at scale**, and whether the market conditions and funder landscape support this potential
- To get alignment of objectives around market need/opportunity – identify the **qualitative shifts** required in the Japanese social investment ecosystem to unlock change, assess potential options to support this (e.g. catalytic fund vs market wide growth) and alignment to USJF goals
- To create **recommendations on viable models** and strategic focus areas - identifying high-potential opportunities through stakeholder engagement and Japan's social investment landscape
- To create a high-level implementation plan and indicative budget for our preferred option based on our own organisational experience and assumptions

This study was carried led by Social Finance (UK) with the support of Social Value Japan (Japan) from May – October 2025



# Japan's impact investment market is expanding in scale, but has not yet fully realised its potential

We found four key barriers which create low trust between capital demanders and providers. Low trust has limited the growth of the impact market



## Immature Ecosystem and Fragmentation

Market growth masks superficial collaboration and fundamental trust gaps between key players



## Capital Structure and Deployment Challenges

Traditional financing mindsets prevent patient capital deployment despite strong stated interest



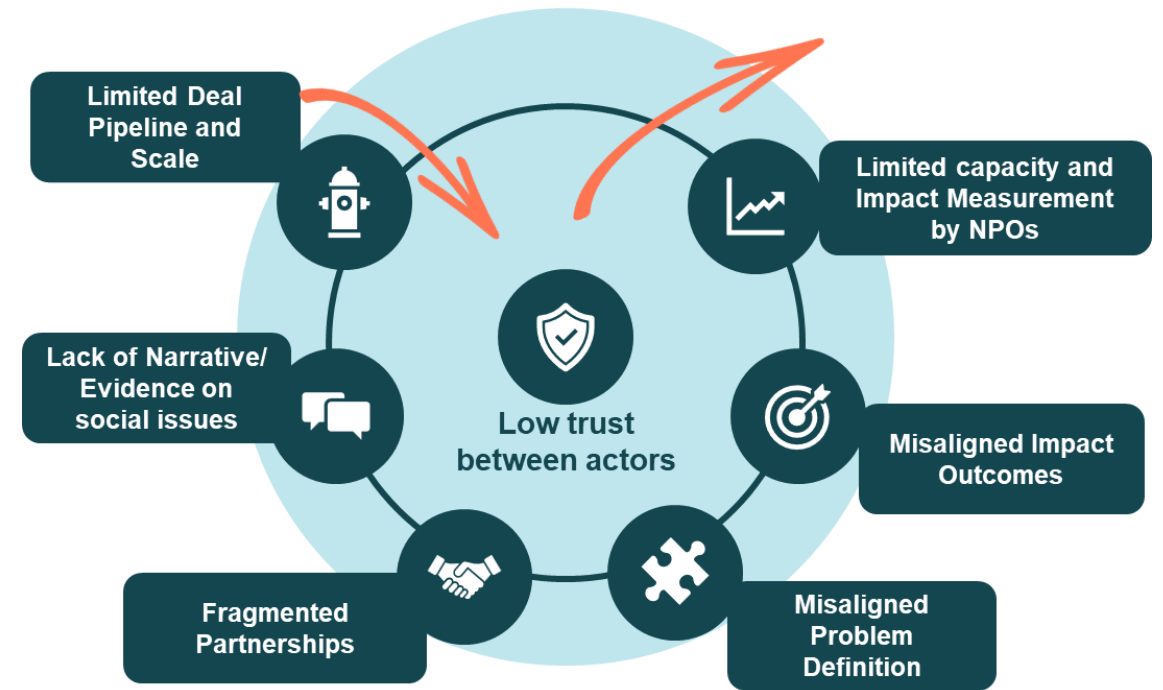
## Co-ordination Failures and Leadership Gap

Lack of credible conveners leaves ecosystem fragmented despite shared interest in change



## Cultural & Structural Barriers to Innovation

Misaligned definitions of impact and fear of failure inhibit genuine collaboration



→ These barriers create a lack of trust between capital providers and NPOs – blocking systemic growth

# USJF can promote market growth by focusing efforts to address the trust deficit and drive systemic change

By focusing on strategic pilots, USJF can build trust, generate learning, and unlock cautious capital – creating momentum across Japan’s impact ecosystem.

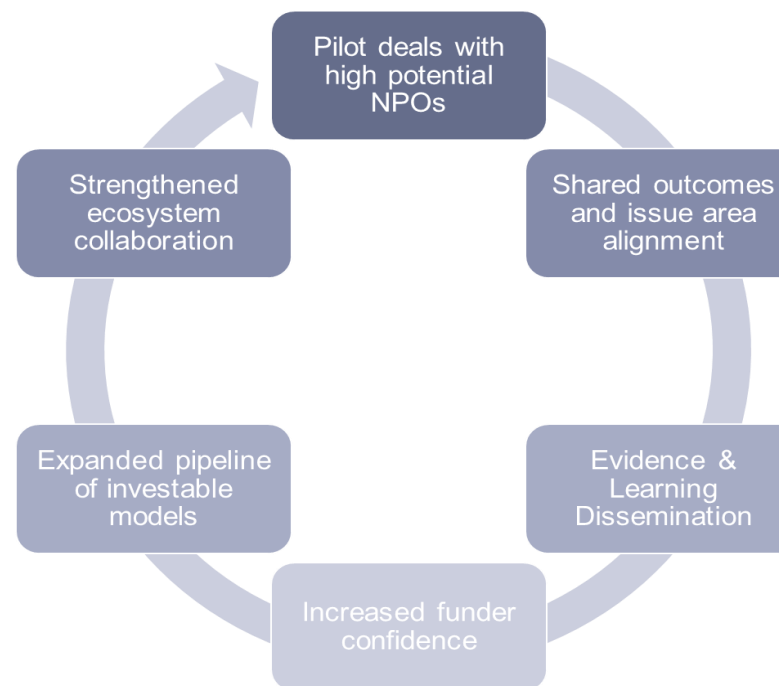
## The market has appetite – but lacks action.

Many stakeholders express interest in impact-first investing, but structural and reputational constraints prevent them from leading.

USJF can demonstrate how capital can be **deployed differently**.

**Strategic pilots** will help NPOs to become credible partners for impact-first capital via capacity-building, shared goals, and results.

**Leadership is needed from within the ecosystem.** USJF can help shape the market by demonstrating what’s possible and as first movers.



**From fragmentation to momentum.** By focusing on **strategic pilots**, USJF can help drive change: each deal helps **build trust, generate learning, and attract more cautious funders**. As more actors engage, coordination will improve and opportunities for new models to scale will emerge.

# We recommend that USJF pilot the ‘Impact Accelerator’, which can build trust and catalyse market growth

## What is it?

A structured multi-year programme to convene and support 4–5 high-potential NPOs which will pilot **innovative financial instruments tied to social issues**.

## How does it work?

NPOs receive small upfront grants, commit via MOU, and co-design pilots with USJF and co-funders. Learning is embedded throughout.

## Keys to Success



**Curate a credible NPO pipeline:** Select NPOs with the capacity and motivation to trial financial instruments. Offer non-financial incentives (e.g. visibility, learning, partnerships) to ensure buy-in beyond grant funding.



**Align around priority issue areas:** Facilitate convergence on a small number of social issues through structured convening. Balance bottom-up input with funder priorities.



**Deliver tangible, fundable deals:** Embed deal structuring and execution support into program design. Use MOUs to secure NPO commitment and ensure pilots result in real transactions - not ‘just dialogue’.

## ? What problems does this approach address?

- NPOs **lack capacity** to manage new forms of capital/measure impact
- Misaligned outcomes and fragmented partnerships reduce **collaboration**
- **Lack of investable pipeline** and shared narrative limits funder confidence
- Ecosystem **lacks a trusted convener** to align actors around systemic change



## Intended outcome for this approach

- Build a pipeline of NPOs capable of **absorbing and deploying innovative capital**
- Pilot new **financial instruments** designed to address structural barriers or funding gaps within priority social issue areas
- Generate **tangible proof points** and shared learning
- **Shift norms** around capital deployment and collaboration in Japan







## Strategic Value to USJF

Positions USJF as a convener and practitioner, not just a funder. Enables others to follow and builds ecosystem momentum

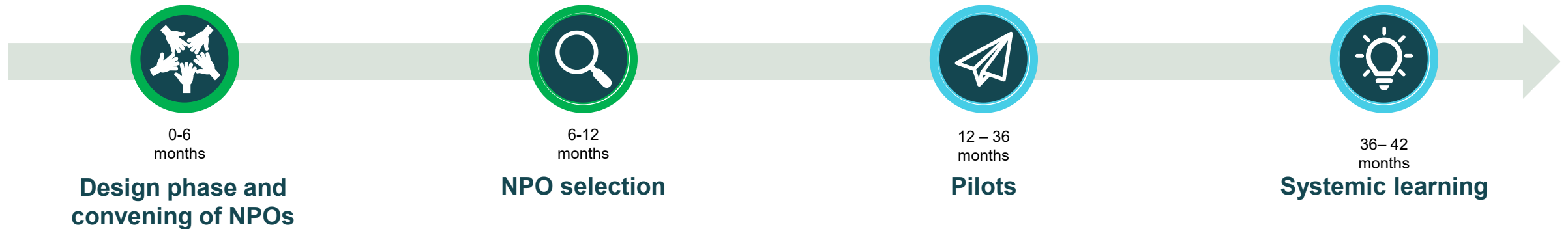
# Alternative options for USJF: Entry points to strengthen Japan's Impact Ecosystem

While the Impact Accelerator is our recommended pathway, USJF could also consider other entry points e.g.: anchor investments in proven NPOs (Option B), co-invest in existing social impact funds (Option C), or - in the longer term - establish a new market-shaping entity (Option D). Each has a distinct route to influence, with varying levels of visibility, operational complexity, and systemic impact.

	Description	Problem Tackled	High-level capacity needs	Strategic Fit
 <b>Impact Accelerator</b>	Convene and fund a cohort of NPOs to pilot new financial instruments linked to social issues.	<ul style="list-style-type: none"> <li>• Weak NPO capacity,</li> <li>• Fragmented partnerships</li> <li>• Lack of investable pipeline</li> <li>• Defining shared outcomes.</li> </ul>	Staff time <ul style="list-style-type: none"> <li>• Strategic director</li> <li>• Support staff</li> <li>• Comms</li> </ul>	<b>Strong</b> – pipeline-building and systemic learning
 <b>Option B. Anchor investments in proven models</b>	Direct investment into high-performing NPOs to demonstrate how capital can be deployed beyond grants.	<ul style="list-style-type: none"> <li>• Trust deficit between funders and NPOs</li> <li>• Lack of precedent transactions and investable models.</li> </ul>	Staff time <ul style="list-style-type: none"> <li>• Pipeline &amp; due diligence</li> </ul> External <ul style="list-style-type: none"> <li>• Legal support</li> <li>• Corporate finance advisory</li> </ul>	<b>Moderate</b> – builds credibility, but limited scale
 <b>Option C. Invest in Social Impact Funds</b>	Co-invest in existing social impact funds to reach more NPOs and influence fund strategy and learning.	<ul style="list-style-type: none"> <li>• Fragmentation</li> <li>• Lack of scale</li> <li>• Weak visibility of impact outcomes</li> </ul>	Staff time <ul style="list-style-type: none"> <li>• Pipeline &amp; due diligence</li> <li>• Relationship building</li> </ul> External <ul style="list-style-type: none"> <li>• Legal support</li> <li>• Corporate finance advisory</li> </ul>	<b>Moderate</b> – scalable, but influence may be limited
 <b>Option D. Set up a new entity<sup>1</sup></b>	Establish a new “Social Finance-style” institution for Japan.	<ul style="list-style-type: none"> <li>• All the above</li> </ul>	Set up costs <ul style="list-style-type: none"> <li>• Business plan from</li> <li>• Operational set up costs</li> </ul>	<b>High</b> – but the enabling conditions for a new entity are not yet present

# What comes next: Implementing the Impact Accelerator

If USJF selects the Impact Accelerator, this is what implementation could look like over 3.5 years. This phased delivery plan outlines how USJF would move from design to pilots, building trust and generating proof points along the way.



## Key Activities

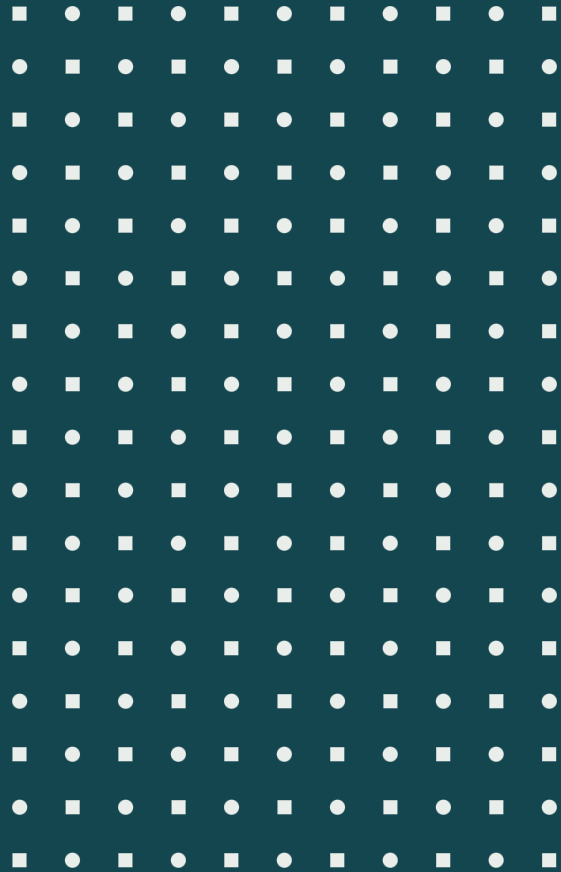
- Design the accelerator model
- Prioritise the issue area
- Build early coalitions

- Define selection & launch process
- Select & formalise cohort
- Prepare for pilot implementation

- Run the pilots
- Generate visible proof points

- Feed learning back into the market
- Strengthen ecosystem capacity
- Scale & replicate

# Introduction



# Background



**The ambition is to assess the need and opportunity for establishing a social investment intermediary in Japan to support and drive growth in the Japanese social investment market**

This report presents the findings and strategic recommendations from a joint research effort by Social Finance UK and Social Value Japan commissioned by the United States-Japan Foundation (USJF). The ambition of this work was to assess the opportunity for establishing a social investment intermediary in Japan and explore how USJF could play a catalytic role in shaping the country's impact investment ecosystem.

Through stakeholder engagement and market analysis, we have developed a set of actionable options for USJF to consider. These options are designed to address the observed barrier's preventing the impact-first investment market's growth, build trust between actors and lay the groundwork for long-term ecosystem development. The report shows a deep dive for the recommended pathway, the Impact Accelerator and provides a high-level roadmap for implementation. It culminates with other pathways that USJF could consider if they wanted to explore alternative options.

The research objectives were to develop:

- A clear, actionable assessment of the opportunity for impact – assessment for whether a social investment intermediary in Japan could drive change at scale, whether the market conditions and funder landscape support this potential
- Alignment of objectives around market need/opportunity – identify the qualitative shifts required in the Japanese social investment ecosystem to unlock change, assessment of potential options to support this (e.g. catalytic fund vs market wide growth) and alignment to USJF goals
- Recommendations on viable models and strategic focus areas - identifying high-potential opportunities through stakeholder engagement and the Japan's social investment landscape.
- A high-level implementation plan and indicative budget for our preferred option based on our own organisational experience and assumptions

# Japan's impact investment market is expanding in scale, but has not yet fully realised its potential

Our hypothesis-led approach revealed that Japan's impact-first investment market is held back not by a lack of interest, but by deeper structural and cultural barriers. While there is appetite for change, the conditions required to unlock capital and scale impact are not yet in place. We identified four recurring themes that explain why the market has not matured: an immature and fragmented ecosystem, challenges in capital deployment, coordination failures and leadership gaps, and cultural resistance to innovation. These insights form the foundation for our strategic recommendations and highlight where targeted interventions could catalyse meaningful change.



## Immature Ecosystem and Fragmentation

**Market growth masks superficial collaboration and fundamental trust gaps between key players**

**Impact-first investment market appears substantial but lacks genuine transformation**

- Japan's impact investment market appears to be growing, but much of it reflects a definitional shift, with conventional loans being retrospectively labelled as impact investments, rather than representing genuine innovation in capital deployment.
- Ecosystem remains highly fragmented with persistent lack of trust between capital providers and NPOs

**Collaboration remains superficial and confined**

- What is termed "collaboration" often refers to one-way flow of funds from corporations and foundations
- Lacks evolution into collaborative knowledge sharing or joint development aimed at solving social issues



## Capital Structure and Deployment Challenges

**Traditional financing mindsets prevent patient capital deployment despite strong stated interest**

**Risk-averse institutions dominate but lack innovation appetite**

- Large financial institutions are reputation-conscious, return-driven, and constrained by fiduciary requirements
- Strong interest in impact-first investment exists but has not translated into robust deal pipeline
- Absence of precedent transactions and credible 'track record' creates barrier to scaling

**Philanthropy trapped in traditional grant-only mindset**

- Philanthropies default to short-term grant giving with little consideration of alternative financing instruments and the role they could play in strengthening the ecosystem



## Co-ordination Failures and Leadership Gap

**Absence of credible conveners leaves ecosystem fragmented despite shared interest in change**

**No credible convener has emerged to bridge sectors**

- Key players lack credibility, positioning, and track record to convene across sectors with divergent agendas
- Without mechanisms to build common language around outcomes and align incentives, collaboration remains fragmented

**Market not ready for standalone market-shaping institution**

- New entrant risks being perceived as competitor rather than collaborator
- Intermediaries often prioritise institutional sustainability over collective ecosystem development



## Cultural & Structural Barriers to Innovation

**Misaligned definitions of impact and fear of failure inhibit genuine collaboration**

**Misaligned understanding of "impact" creates systemic dysfunction**

- Capital providers operate with broad, high-level impact categories, while NPOs define impact through specific, grassroots outcomes - creating a disconnect in language and alignment.

**Evidence-to-action gap limits strategic decision making**

- Research exists but lacks clear translation into public narrative of social issues
- Research often handled in-house and used as strategic differentiator, making ecosystem-wide learning difficult
- Makes it hard to articulate problems convincingly enough to drive large institutional behavior change

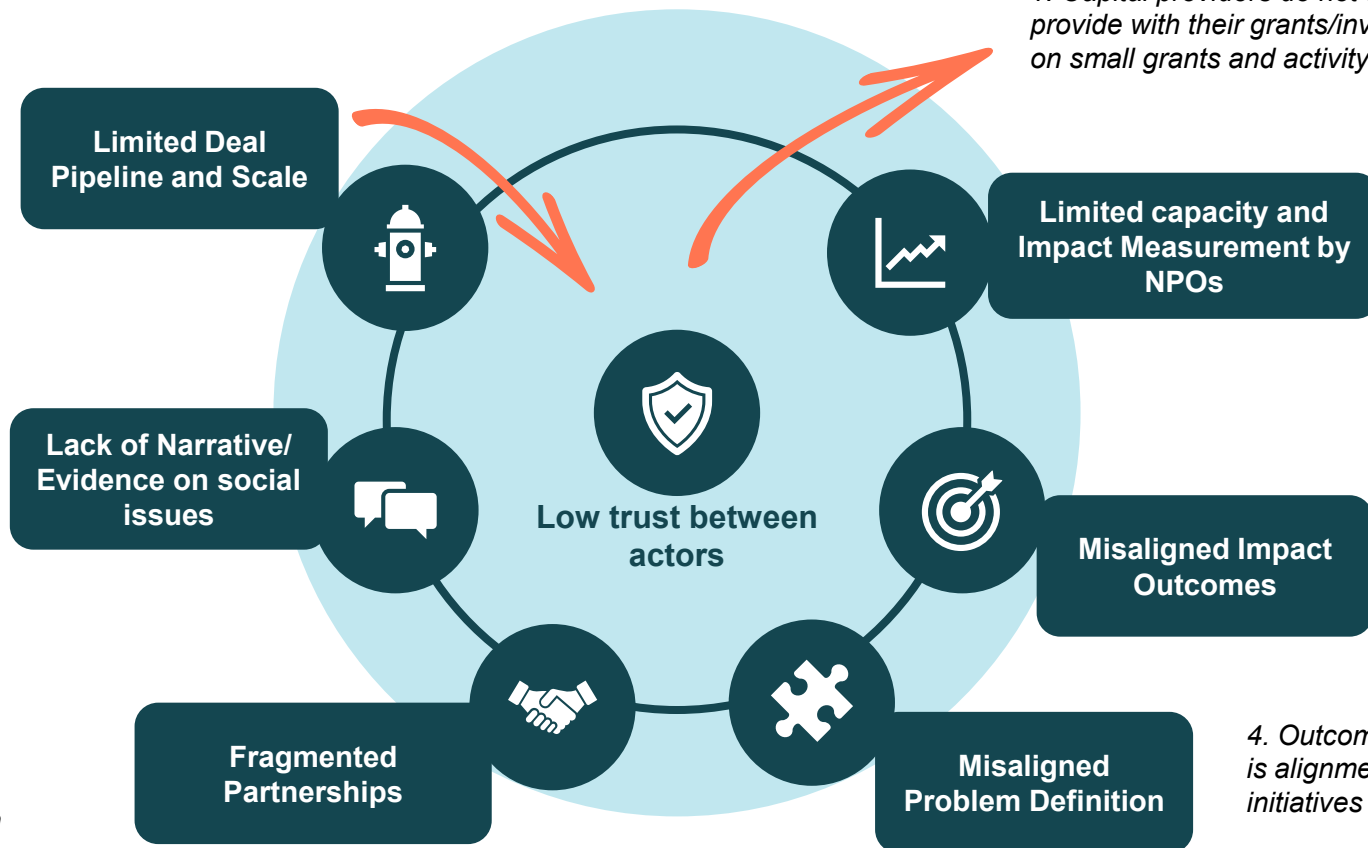
# Lack of trust between capital providers and NPOs blocks systemic growth

Japan's impact investment ecosystem is held back by a deep and persistent trust deficit between capital providers and NPOs. This is not simply a matter of relationships - it reflects structural misalignments in how impact is defined, measured, and financed. NPOs lack the capacity to engage with repayable capital, while funders remain cautious due to the absence of credible proof points. Without alignment on outcomes, shared problem definitions, and a visible impact investment track record, the market cannot evolve. The market needs intervention at these critical pressure points, creating the conditions for trust to be rebuilt and capital to flow more effectively.

7. Limited number of deals result in a lack of 'track record'. This does not attract new capital providers to the market or incentivise existing capital providers to provide capital in different ways

6. No widely recognised, data-driven narrative on priority social issues

5. Shared understanding of problems can only emerge if there is consistent partnership and/or public narrative/publicly available evidence on a social issue are shared



1. Capital providers do not understand the 'impact' NPOs provide with their grants/investments. There is a reliance on small grants and activity-based performance metrics

2. NPOs don't measure the impact their programmes offer as they do not often have the capacity or capability. Metrics are developed to track expenditure and 'prove' output-based value rather than guide learning

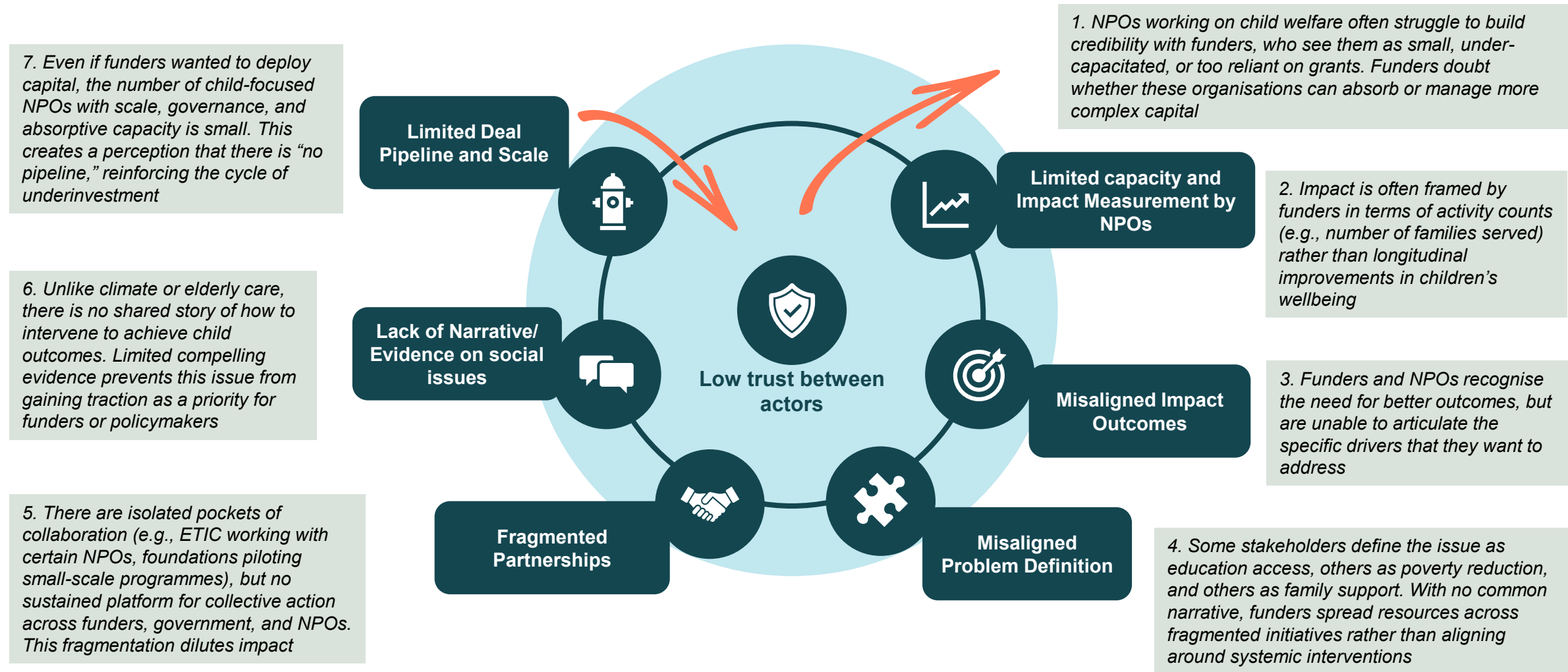
3. Measurement metrics can only be developed if there is alignment on what the priority outcomes are

4. Outcomes can only be agreed if there is alignment on the social problem initiatives are trying to solve

**Our strategic recommendations have been designed as targeted entry points to disrupt the current cycle and enable USJF to drive meaningful change from within the ecosystem.**

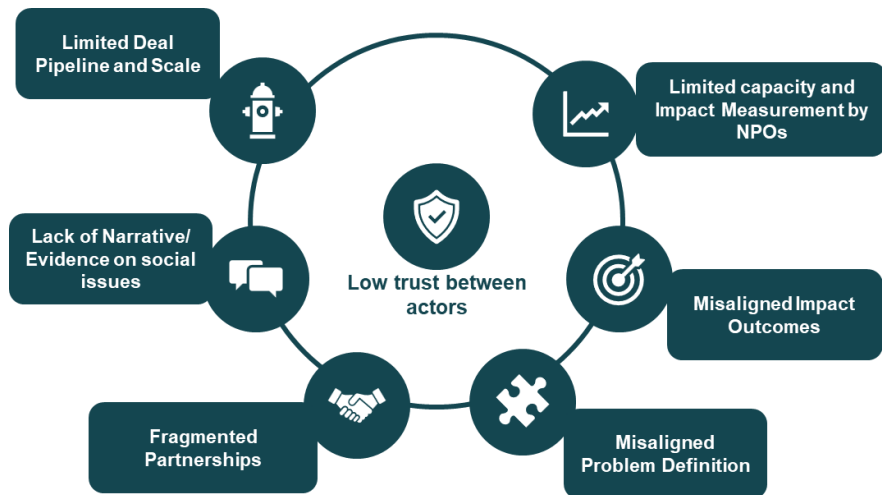
# An illustrative view of how this trust cycle materialises in Japan

We have provided an illustrative view of how this trust cycle could play out in the issue area of **improving outcomes for children**, which is a priority area that was highlighted by many of the stakeholders



# Proven examples from a first mover can break the Trust deficit

Breaking the cycle of distrust requires more than convening and demands action. USJF has a unique opportunity to lead by example, piloting strategic deals that demonstrate how capital can be deployed differently and effectively. These deals will not only build credibility with cautious funders and NPOs but also generate the evidence and shared language needed to shift norms across the ecosystem. By acting as a first mover, USJF can help transform isolated interest into coordinated investment, laying the groundwork for long-term systemic change.



To catalyse the growth of Japan's impact investment ecosystem, USJF should focus on strengthening the demand side - building the capacity, credibility, and visibility of NPOs and social ventures that can absorb and deploy capital effectively.

While individual organisations may be ready to engage with innovative financial instruments, the perceived risk among capital providers remains high due to a lack of precedent transactions and shared understanding of outcomes.



We have proposed one key strategic recommendation for how USJF can address this trust deficit within its existing footprint. In addition to this, we have outlined two further options which USJF could consider if they wanted an alternative entry point. These options are designed to create a track record of credible, outcomes-oriented deals that demonstrate how capital can be deployed beyond traditional grant models

By pursuing one or a combination of these options, USJF could create a track record of credible, outcome-oriented deals that demonstrate how capital can be deployed beyond traditional grant models.

- **Strategic Recommendation – the Impact Accelerator** - Convene and support a cohort of NPOs to pilot new financial instruments tied to social issues.
- **Option B: Anchor Investments in Proven NPOs** - Build credibility through direct investment in mature, high-performing NPOs.
- **Option C: Invest in Social Impact Funds** - Co-invest in existing funds to scale reach and influence fund strategy and learning.



We considered a fourth option: establishing a new market-shaping entity (Option D). At this stage, the business case for this option has not yet been established. Further progress is needed to test demand, build credibility, and clarify the mandate. While this may remain a longer-term ambition for USJF, the current priority is to pursue the other options within the existing legal structure. This will help generate proof points and lay the groundwork for future consideration of Option C.



# An Impact Accelerator model can address the trust deficit

## Overview

USJF will act as both an active convener of NPOs and as a funder to identify and support a small cohort of high-potential NPOs. Through a competitive bidding process, NPOs will commit - via MOU - to working towards a pilot of a new financial instrument linked to a social issue area of their choosing. To ensure buy-in and support early-stage participation, each NPO will receive a small upfront grant to cover engagement costs, capacity-building needs, and any additional operational requirements. This approach ensures that participating NPOs contribute to both ecosystem learning and tangible deal execution, creating the foundations for systemic change. By embedding learning and knowledge-sharing into the design of each pilot, USJF can generate actionable insights for capital providers and NPOs alike, while also demonstrating how targeted deals can influence broader systemic change.

While this approach prioritises building capacity and learning across a small, carefully selected group of NPOs, success will depend on careful selection of organisations with the reach, networks, and motivation to trial innovative instruments. Effective facilitation, sustained engagement, and alignment with co-funders will be required to ensure that pilots both generate tangible outcomes and contribute to the ecosystem-level credibility of USJF's interventions.



### What problems in the market does this option address?

- **NPOs lack capacity to manage new forms of capital or measure impact** – NPOs are not demanding different forms of capital from capital providers, showing that they are ready to absorb different types of capital.
- **Misaligned outcomes and fragmented partnerships reduce collaboration** - Trust between capital providers and NPOs remains fragile, with funders hesitant to experiment without strong local proof-points.
- **Lack of investable pipeline and shared narrative limits funder confidence** - Deals to date have largely been traditional grant-based interventions, limiting visibility of how alternative financial instruments could operate.
- **Ecosystem lacks a trusted convener to align actors around systemic change.**



### Intended outcome for this approach

- **Build a pipeline of NPOs capable of absorbing and deploying innovative capital.**
- **Pilot new financial instruments designed to address structural barriers or funding gaps within priority social issue areas** – Evidence to de-risk the perspective of capital providers in using different financial instruments.
- **Generate tangible proof points and shared learning across the ecosystem** - Create a 'track record' of deals that have been trialled in Japan.
- **Shift norms around capital deployment and collaboration in Japan** - designed to tackle social issues are owned and shared by different stakeholders.



### Strategic Value to USJF

This approach positions USJF as both a convener and a deal-maker in Japan's emerging impact investment ecosystem. By actively identifying and supporting a cohort of high-potential NPOs, USJF demonstrates its ability to move beyond grant-giving and into structured, outcome-oriented capital deployment. The program builds a credible track record of tangible deals and ecosystem learning, showcasing USJF's commitment to innovation and systemic change.

Through this initiative, USJF can catalyse collaboration across funders, NPOs, and intermediaries, helping to align actors around shared outcomes and financial instruments. It also enables USJF to shape the narrative around impact-first investing in Japan, reinforcing its role as a thought leader and trusted partner. Importantly, this approach lays the groundwork for a scalable pipeline of investable opportunities, ensuring that USJF's influence extends beyond individual deals to broader market transformation.



# Strategic Recommendation: Impact Accelerator

The Impact Accelerator is not just a programme - it's a market-building intervention grounded in our experience catalysing impact-first ecosystems globally. It's designed to build trust, generate proof points, and create the conditions for others to follow.

## The Impact Accelerator is about creating momentum – not acting alone

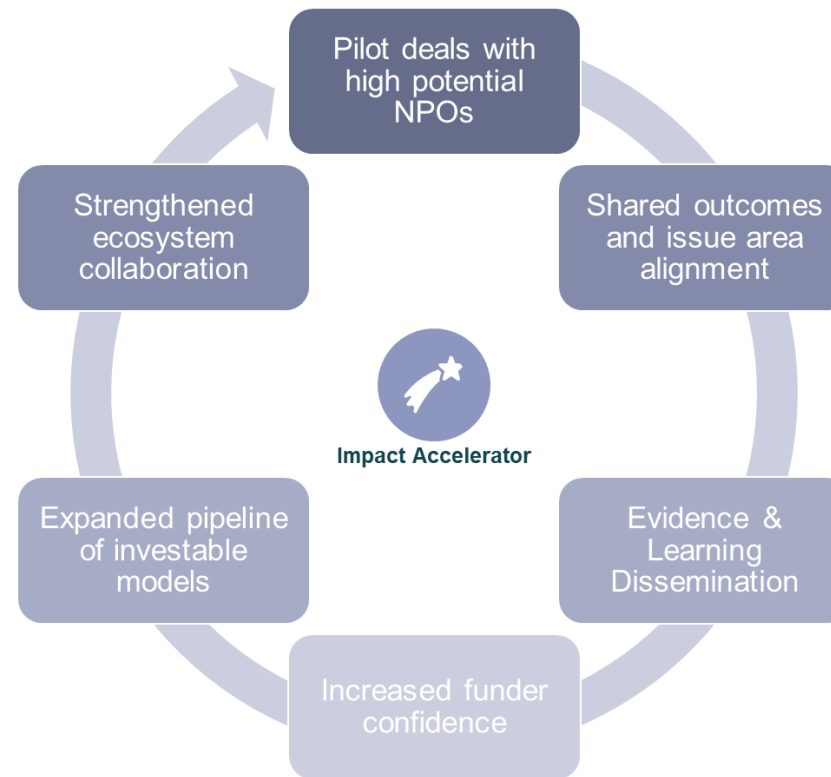
The Impact Accelerator is designed to create a flywheel effect: each pilot builds trust, generates evidence, and attracts more actors into the impact-first investment market. It's not just about USJF - it's about enabling other actors to follow, creating the conditions for a broader ecosystem shift and growth in the market that has yet to be achieved

## The Impact Accelerator directly targets barriers in the trust deficit

While the trust deficit remains a core challenge, the Impact Accelerator is the only pathway that actively builds NPO capacity, aligns funders around shared outcomes, and generates the track record needed to unlock cautious capital. It turns trust-building into actionable learning, helping shift the market from theory to practice. A successful Impact Accelerator, if well intentioned and designed, could transition into a new entity

## We have made an indicative roadmap grounded in our experience to outline USJF's next steps

Based on our experience conducting similar market-shaping work, we've laid out a roadmap for implementation of the Impact Accelerator including high level timelines, team structure, and cost estimates. This is a practical, scalable strategy that balances ambition with realism and positions USJF to lead from within the ecosystem.



Each stage of the flywheel addresses key pressure points in Japan's trust deficit - turning fragmentation into coordination, caution into confidence, and isolation into momentum. The Impact Accelerator is not a one-off intervention, but a scalable strategy to build credibility, capacity, and collaboration across the ecosystem



# Impact Accelerator

## Operational Considerations

### Key to Success



**Curate a credible NPO pipeline:** Select NPOs with the capacity and motivation to trial financial instruments. Offer non-financial incentives (e.g. visibility, learning, partnerships) to ensure buy-in beyond grant funding.



**Align around priority issue areas:** Facilitate convergence on a small number of social issues through structured convening. Balance bottom-up input with funder priorities to avoid fragmentation and ensure relevance.



**Deliver tangible, fundable deals:** Embed deal structuring and execution support into the program design. Use MOUs to secure NPO commitment and ensure pilots result in real transactions - not just dialogue.



### Operational focus and timeline

Outlined below are the steps that need to be taken for the Impact Accelerator



0-6 months

**Design phase and convening of NPOs** with facilitation support from SF UK or SVJ. Initial sessions focus on identifying issue areas, building capacity around innovative financing and identify co-financing opportunities



6-12 months

**NPO selection -** Interested NPOs bid into the program with 4-5 selected. Those selected receive a small up-front grant and sign an MOU committing to piloting a financial instrument and to share learnings



12 - 36 months

**Pilots –** NPOs design and roll out pilots, co-funded by USJF and other funders, with structured knowledge-sharing requirements



36 - 42 months

**Systemic Learning –** Results are disseminated through workshops and publications, shaping a narrative around how innovative capital can deliver social change



# Impact Accelerator

## Key Considerations for USJF

The Impact Accelerator positions USJF as both a convener and a practitioner, but its success depends on careful design, credible delivery, and alignment with existing actors. This slide outlines the risks, capacity needs, and strategic questions that must be addressed to ensure the accelerator delivers tangible outcomes and ecosystem-level influence.



### Systemic Influence

#### Key risk

If pilots fail to result in tangible deals or shared outcomes, the accelerator may be perceived as a convening exercise without real market impact. This risks reinforcing the status quo and undermining USJF's credibility as an innovative funder.

#### Mitigation

Embed deal structuring and execution support into the program design to ensure pilots lead to real transactions. Use MOUs and shared learning requirements to formalise NPO commitment and ensure that each pilot results in a tangible financial instrument, not just dialogue. Pair this with a clear dissemination strategy - including case studies, funder briefings, and public convenings - to translate pilot outcomes into ecosystem-level influence.



### Key questions

- **Selection Criteria** – What characteristics define a high-potential, creditworthy NPO?
- **Influence on Funders** – What mechanisms will we use to translate pilot outcomes into broader ecosystem influence?
- **Action oriented with system learning** - How will we ensure that pilot instruments are designed with both execution feasibility and learning value in mind?



### Perception of USJF

#### Risk

USJF may be perceived as duplicating the role of existing conveners (e.g. SIIF) or lacking the operational credibility to execute deals. Without clear differentiation, the initiative could be seen as light on delivery, weakening USJF's positioning as a first mover.

#### Mitigation

Clearly articulate USJF's value-add as a funder focused on execution, learning, and capital deployment. Embed deal structuring and co-investment mechanisms into the accelerator design to demonstrate tangible outcomes. Position USJF as a collaborative partner, not a competitor, by aligning with existing actors and focusing on execution over convening alone.



### Capacity Needs

**Strategic Leadership:** A Strategic Director with cross-sector fluency, financial credibility, and convening power is essential.

**Programme Management:** A small internal team to manage cohort selection, pilot design, and stakeholder coordination.

**Facilitation & Convening:** Capacity to run workshops, roundtables, and learning sessions with NPOs and funders.

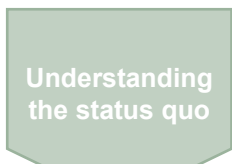
**Legal & Structuring Support:** Developing MOUs, designing financial instruments, and ensuring compliance.

**Knowledge & Communications:** Dedicated resource to capture and disseminate learning, build visibility, and shape public narrative.



# Delivering Impact: Theory of Change for the Impact Accelerator

This slide outlines the journey USJF will guide NPOs through as part of the Impact Accelerator. It reflects a theory of change: that by supporting NPOs to understand the status quo, identify opportunities, co-develop new models, and pilot them with aligned partners, we can build the conditions for systemic change. This roadmap is designed to build capacity, foster collaboration, and generate tangible proof points - helping shift Japan's impact-first ecosystem from fragmentation to momentum.



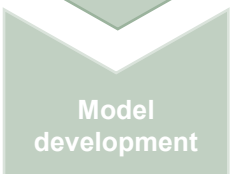
**Why does the status quo persist?**

- Qualitative and quantitative research to understand the individual, community and systemic barriers to addressing an issue in Japan
- Build relationships with the various stakeholders with experience and knowledge of the issue – including NPOs, intermediaries and philanthropies; and who are needed to affect change including service users, community, charities, academics, government, and policy makers
- Review sector best practice and current research with the aim of sharing learning across the sector



**What are the opportunities and levers for change?**

- Develop an understanding of the sector landscape in terms of policy, new initiatives, and those within each stakeholder group with a hunger for change
- Identify the opportunity for change by synthesising the research, sector and service user consultation to develop a response that drives systemic change
- Identify and support the leaders for change locally and across the sector who are interested in developing these hypotheses to implementation



**How can we develop a model that delivers sustainable and scalable change?**

- Create new collaborations focused on addressing the social issue – these are generally cross-sectoral and involve partnerships that have not previously been conceived of
- Reflect on the barriers to change to develop a new response that addresses these barriers - this draws on comparator models from other social issues and is also done in collaboration
- Develop the model for sustainability in the short- and long-term
- Create a new narrative around the issue



**How do we implement the model?**

- The work from the very beginning is focused on implementation and not research
- Implementation involves both:
  - building partnerships, relationships, and momentum towards a new way of working
  - the practicalities of setting up a new response such as staffing, contracting, legal forms, governance, fund raising



**How can we achieve national impact ?**

- Throughout this whole process, the focus of the work is also on achieving national impact
- The response developed will be appropriate for a local context, but will also have the potential to be replicated nationally and that is built into the development plan
- During delivery of the initial response there will be significant focus on learning and improvement to refine the model
- To support replication, learnings will be shared as a public good



# Delivery Plan for USJF - Designing the Impact Accelerator

This slide outlines the stepwise delivery model for the Impact Accelerator over an initial 3.5-years. It shows how USJF will build NPO capacity, pilot innovative financial instruments, and generate ecosystem-level learning. Each stage is designed to build trust, create proof points, and lay the groundwork for systemic change.



0-6 months

## Design phase and Convening of NPOs



6-12 months

## NPO selection



12 – 36 months

## Pilots



36– 42 months

## Systemic Learning

Key Activities

**Design the accelerator model:** Develop a clear mission and theory of change for the accelerator that frames it as a response to Japan’s trust deficit (limited deal flow, fragmented evidence, weak collaboration). Define cohort size, support model, and governance structures that balance local ownership with USJF’s market-shaping role, while socialising the concept with potential co-funders to validate appetite and align priorities.

**Prioritise the issue area:** Undertake a landscape analysis of social issues where both need and funder appetite converge (e.g. children’s outcomes, ageing society). Shortlist 1-2 areas in collaboration with funders and NPOs, so that pilots address a real systemic gap rather than being perceived as isolated grant experiments.

**Build Early Coalitions:** Convene initial roundtables with NPOs, funders, and intermediaries to validate the chosen issue area and signal commitment to action. Position this stage as ecosystem design - not just “deal sourcing” - to attract partners.

**Define selection & launch process:** Establish clear criteria for “high-potential” NPOs in Japan - not only organisational strength, but also their ability to convene stakeholders and act as credible partners for capital providers. Issue a call for proposals framed around one priority issue area, signalling to the ecosystem that this is about building investable, outcomes-driven models rather than traditional grant funding.

**Select & formalise cohort:** Evaluate applications and select 4–5 diverse NPOs which focus on a range of model. Formalise participation through MOUs that commit each to commit to work toward piloting a financial instrument and contributing to shared learning. NPOs will also receive a small participatory grant as an incentive to participate and to cover additional costs.

**Prepare for pilot implementation:** Co-design financial instruments with each NPO, establish baseline metrics, and align on shared outcomes to ensure readiness for structured pilots and ecosystem-wide evidence building.

**Run the Pilots:** Work with the selected NPO cohort to implement financial instruments tailored to their capacities (e.g. repayable grants for early adopters, revenue-linked loans for more mature organisations). Ensure each pilot tests both capital deployment and ecosystem dynamics, such as collaboration with funders or alignment on outcomes.

**Generate Visible Proof Points:** Document results rigorously, not only on NPO performance but also on how the instrument shifted funder perceptions, collaboration patterns and trust dynamics. Package these findings into narratives and case studies designed for cautious Japanese funders who want concrete evidence before taking risks.





**Feed Learning Back into the Market:** Host public convenings and closed-door funder workshops to socialise results, translating pilots into ecosystem-level lessons. Establish an intentional learning agenda so that each deal contributes to systemic credibility - positioning USJF as both a funder and a market-shaping knowledge hub.

**Strengthen Ecosystem Capacity:** Use learning to guide NPOs, funders, and intermediaries on collaboration, measurement alignment, and capital deployment.

**Scale & Replicate:** Expand successful pilots, attract additional funders, and replicate high-potential models to influence broader systemic change.

# Alternative options for USJF: Entry points to strengthen Japan's Impact Ecosystem

While the Impact Accelerator is our recommended pathway, USJF could also consider other entry points e.g.: anchor investments in proven NPOs (Option B), co-invest in existing social impact funds (Option C), or - in the longer term - establish a new market-shaping entity (Option D). Each has a distinct route to influence, with varying levels of visibility, operational complexity, and systemic impact.

	Description	Problem Tackled	High-level capacity needs	Strategic Fit
 <b>Impact Accelerator</b>	Convene and fund a cohort of NPOs to pilot new financial instruments linked to social issues.	<ul style="list-style-type: none"> <li>• Weak NPO capacity,</li> <li>• Fragmented partnerships</li> <li>• Lack of investable pipeline</li> <li>• Defining shared outcomes.</li> </ul>	Staff time <ul style="list-style-type: none"> <li>• Strategic director</li> <li>• Support staff</li> <li>• Comms</li> </ul>	<b>Strong</b> – pipeline-building and systemic learning.
 <b>Option B. Anchor investments in proven models</b>	Direct investment into high-performing NPOs to demonstrate how capital can be deployed beyond grants.	<ul style="list-style-type: none"> <li>• Trust deficit between funders and NPOs</li> <li>• Lack of precedent transactions and investable models.</li> </ul>	Staff time <ul style="list-style-type: none"> <li>• Pipeline &amp; due diligence</li> </ul> External <ul style="list-style-type: none"> <li>• Legal support</li> <li>• Corporate finance advisory</li> </ul>	<b>Moderate</b> – builds credibility, but limited scale.
 <b>Option C. Invest in Social Impact Funds</b>	Co-invest in existing social impact funds to reach more NPOs and influence fund strategy and learning.	<ul style="list-style-type: none"> <li>• Fragmentation</li> <li>• Lack of scale</li> <li>• Weak visibility of impact outcomes</li> </ul>	Staff time <ul style="list-style-type: none"> <li>• Pipeline &amp; due diligence</li> <li>• Relationship building</li> </ul> External <ul style="list-style-type: none"> <li>• Legal support</li> <li>• Corporate finance advisory</li> </ul>	<b>Moderate</b> – scalable, but influence may be limited.
 <b>Option D. Set up a new entity<sup>1</sup></b>	Establish a new “Social Finance-style” institution for Japan.	<ul style="list-style-type: none"> <li>• All the above</li> </ul>	Set up costs <ul style="list-style-type: none"> <li>• Business plan from</li> <li>• Operational set up costs</li> </ul>	<b>High</b> – but the conditions for a new entity are not right



# Option B: Anchor Investments in Proven NPO Models

**Overview**  
 USJF continues to offer innovative concessional debt financing to select NPOs, such as Peace Winds Japan, that are well-established within the sector. This strategy aims to raise USJF’s visibility, strengthen relationships among key stakeholders, and build expertise in Japan’s social impact ecosystem. It also helps establish precedent-setting transactions that demonstrate alternative capital deployment models with measurable social outcomes.

While the current approach focuses on enhancing fundraising capacity in local NPOs, the number of organisations with the maturity and capabilities of Peace Winds Japan is limited, which may constrain overall impact. To broaden reach, USJF could consider deploying concessional debt or innovative grant capital to support service innovation or the development of new impact-first business models. These types of deals would require specialised corporate finance skills, potentially necessitating additional team training or resources.

 **What are the problems this option addresses?**

- **NPOs only operate on a grant or donation revenue stream mindset**
- **NPOs have limited capacity to engage with new financial instruments as they do not have the managerial or financial capacity necessary to take-on repayable capital**
- **Funders and NPOs lack shared understanding of outcomes, leading to misalignment.**
- **Fragmented partnerships and limited ecosystem-level visibility reduce confidence in scaled interventions.**

 **Intended outcome for this approach**

- Encourage wider adoption of repayable financing by strengthening NPO capacity and begin building an ecosystem track record of deals in the Japanese market. This will
- **Increase visibility of financial instruments** in the ecosystem by demonstrating how loans, grants, and blended finance mechanisms can be effectively deployed to NPOs.
  - **Expand NPO capacity and pipeline for capital deployment** by supporting high-potential NPOs to absorb and manage different forms of capital.
  - **Build a track record to showcase models** and processes that could inform broader adoption across the Japanese market. Evidence how different financial instruments can support scaling and system-wide learning.

 **Strategic Value to USJF**

- This recommendation delivers strategic value to USJF by establishing presence, building credibility, and creating the foundation for broader market influence
- **Establish USJF’s credibility and legitimacy in Japan** – Establishes USJF as a trusted partner that understands the nuances of the Japanese impact ecosystem
  - **Generate a demonstrable track record** – Provides several concrete examples for how capital can be deployed to NPOs, strengthening the case for future investments
  - **Deepen relationships across the Japanese Social Sector** – Creates opportunities to collaborate with financial institutions, foundations who are interested in the Peace Winds model
  - **Positions USJF as a market-shaping actor** – Lays the groundwork for broader convening of actors, partnerships and larger systemic interventions in the future



# Option B: Anchor Investments in Proven NPO Models

## Operational Considerations

### Key to Success:



**Identifying and supporting high potential NPOs:** A clear pipeline of investable organisations that can absorb capital effectively is critical. Early success depends on selecting partners with credible business models, governance, and the ability to demonstrate impact



**Strategic vision for USJF:** Even within a light-touch approach, USJF needs clarity on whether it is positioning itself as a catalytic funder, a knowledge partner, or a convenor. This vision guides both co-investor engagement and deal selection



**Willingness and readiness of NPOs to take on repayable capital:** Many Japanese NPOs lack experience with financial products beyond grants. For the model to work, there must be sufficient organisational capacity and risk tolerance to experiment with repayable products in addition to technical support from USJF



**Building credibility and trust with local intermediaries and financial institutions:** Success depends on strong partnerships with actors like Keizai Doyukai or other capital providers to act as the guarantor. Early deals must be seen as collaborative and additive to the market, not competitive. Trust is the currency that unlocks co-investment and scale



### Operational focus and timeline

Outlined below are the steps that need to be taken for Option B



6 months

**Design** innovative funding products such as repayable grants or concessional loans

**Identify and conduct due diligence** existing high-performing NPOs



6-12 months

**Provide incremental funding** and technical support to expand NPOs' reach and pilot basic adaptations of financing products



12 – 24 months

**Document outcomes** of new capital deployment modalities and lessons learned to create evidence of successful capital deployment



24 months+

**Share learnings** via workshops or case studies, but the focus remains on supporting established NPO operations rather than crowding in more capital immediately



# Option B: Anchor Investments in Proven NPO Models

## Key Considerations for USJF

While Option B offers a direct and low-risk entry point into the market, its ability to drive systemic change is limited unless paired with broader learning and visibility efforts. This slide outlines the key risks, capacity needs, and strategic questions USJF should consider before scaling this approach.



### Systemic Influence

#### Key Risk

Investing in high-performing NPOs may result in isolated proof points that fail to shift broader ecosystem norms. Without visibility, shared learning, or replication, these deals risk being seen as incremental rather than transformative.

#### Mitigation

Frame early investments as **innovation pilots** designed to test new capital modalities. Pair each deal with **structured documentation and dissemination** to build a credible track record and influence funder behaviour. Where possible, **link deals to broader issue areas** to signal relevance beyond the individual NPO.



### Key questions

- What characteristics define a **high-potential**, creditworthy NPO and how can we build a strong pipeline of investees around them?
- Can the Peace Winds model be **adapted across issue areas or scaled** beyond a few strong NPOs?
- Would **evidence** from these deals be compelling enough to influence other funders?
- How will we ensure early deals generate influence beyond the pilot?



### Perception of USJF

#### Key Risk

USJF may be perceived as a philanthropic actor focused on incremental change, rather than a catalytic investor driving innovation. This could limit its ability to attract co-investors, influence funder behaviour, or shape the broader impact investment narrative in Japan.

#### Mitigation

Position USJF as a **strategic first mover** by framing early deals as **innovation pilots** that test new capital modalities. Emphasise learning, visibility, and systemic relevance - not just deal execution - to signal ambition and build credibility as a market-shaping actor.



### Capacity Needs

**Investment readiness assessment:** USJF will need capacity to identify and assess NPOs with the governance, financial management, and operational capacity to take on repayable capital.

**Corporate finance expertise:** Deploying concessional loans or blended finance products will require legal and financial advisory support.

**Relationship management:** Building trust with local intermediaries and capital providers (e.g. Keizai Doyukai) will require dedicated stakeholder engagement.

**Monitoring and learning:** Capacity to document and share learnings from early deals to build a credible track record and influence funder behaviour.



# Option C: Invest in Social Impact Funds

## Overview

USJF will deploy capital into existing social impact funds, leveraging their infrastructure, networks, and expertise to reach a broader range of NPOs and social enterprises. By channelling resources through established intermediaries, USJF can accelerate its entry into the Japanese impact ecosystem, build visibility through association with credible actors, and expand reach beyond what could be achieved through direct deals alone. While this pathway offers efficiency and rapid visibility, it places greater reliance on the strategic choices, governance, and performance of intermediary actors and funds. The extent of USJF’s influence on capital deployment and impact outcomes may be limited, potentially constraining its ability to shape systemic change narratives directly. To maximise value, USJF would need to select funds with strong alignment to its mission, establish clear mechanisms for learning and visibility, and consider how its participation can strengthen intermediaries in ways that complement - rather than duplicate - existing actors in the ecosystem.



### What problems in the market does this option address?

- **Limited pipeline development capacity** – Most NPOs in Japan aren’t investment-ready due to gaps in financial literacy, governance, and experience with repayable capital.
- **Fragmentation and inefficiency** – Individual deals are hard to scale without intermediaries. Investing in funds enables aggregation and coordination across issue areas.
- **Lack of systemic learning and coordination** – Funds often operate in silos. USJF’s involvement can incentivise shared frameworks and cross-sector collaboration.



### Intended outcome for this approach

- **Accelerate capital deployment** by leveraging existing fund infrastructure to reach more NPOs efficiently.
- **Improve visibility and credibility** of impact investing through association with trusted, well-established actors.
- **Strengthen the ecosystem** by supporting funds that embed social outcomes and transparent reporting.
- **Enable systemic learning** by requiring knowledge-sharing and public dissemination of results.
- **Build a scalable model** for USJF to influence the market without direct operational burden.



### Strategic Value to USJF

This approach allows USJF to gain rapid visibility and credibility in Japan’s impact investment ecosystem by aligning with established social impact funds. It reduces the operational burden of sourcing and conducting due diligence for individual deals, while still enabling USJF to shape the market through strategic co-investment and knowledge-sharing mandates.

By partnering with funds such as SIIF or regional innovation platforms, USJF can influence fund practices, promote transparency, and amplify learnings across the ecosystem. This positions USJF as a thought leader and ecosystem builder, even when not directly deploying capital. However, to avoid being perceived as a passive investor, USJF must secure a role in shaping the fund’s learning agenda and ensure that investments contribute to systemic change rather than sustaining the status quo.



# Option C: Invest in Social Impact Funds

## Operational Considerations

### Key to Success



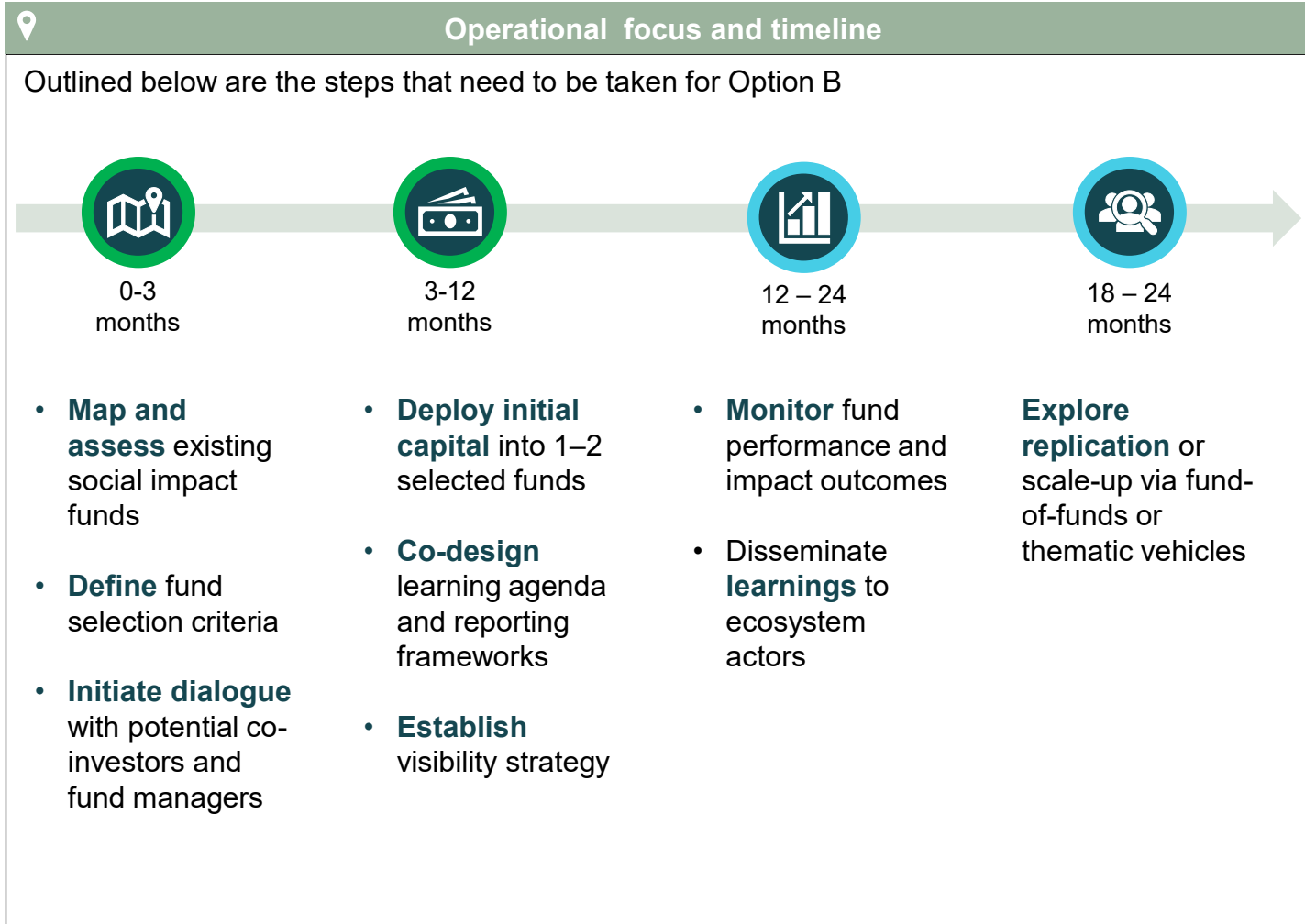
**Strategic Fund Selection:** Choose funds with strong governance, thematic alignment, and willingness to share data.



**Influence Mechanisms:** Secure board observer roles or co-lead learning agendas to avoid passive positioning.



**Transparency & Learning:** Require public reporting and knowledge-sharing to build ecosystem trust and visibility.





# Option C: Invest in Social Impact Funds

## Key Considerations for USJF

Investing in existing social impact funds offers efficiency and reach, but may limit USJF’s visibility and influence unless mechanisms for learning and strategic alignment are built in. This slide outlines the key considerations for fund selection, influence, and impact visibility.



### Systemic Influence

#### Key Risk

USJF may be perceived as a passive investor with limited influence over fund strategy, learning agendas, or impact outcomes. This could dilute its positioning as a market-shaping actor and reduce visibility in the ecosystem.

#### Mitigation

Secure a visible role in shaping fund strategy by negotiating board observer positions, co-leading learning agendas, or embedding reporting requirements. Frame USJF’s involvement as catalytic - not just financial - by emphasising its contribution to transparency, ecosystem learning, and funder alignment.



### Key questions

- **Fund Selection Criteria** - What makes a fund strategic for USJF? Should we prioritise thematic focus, governance, or size?
- **USJF’s Influence** - If USJF is a minority investor, how much say will it have in shaping learning agendas, reporting, or fund strategy?
- **Impact Evidence & Visibility** - Can these funds generate the narrative and proof points needed to address the trust deficit? Will USJF’s role be visible enough to shape the ecosystem?



### Perception of USJF

#### Risk

USJF’s role may be invisible to the broader ecosystem, especially if fund branding overshadows its contribution.

#### Mitigation

Establish a visibility strategy that includes joint convenings, co-branded publications, and public learning dissemination. Ensure USJF’s strategic intent is clearly communicated to partners and the market.



### Capacity Needs

**Fund due diligence:** Capacity to assess fund governance, thematic alignment and impact measurement frameworks

**Strategic influence:** Ability to negotiate learning agendas, reporting requirements and visibility mechanisms

**Relationship Management:** Ongoing engagement with fund managers and co-investors to ensure alignment and collaboration

**Monitoring and evaluation:** Light-touch oversight to track fund performance and extract ecosystem level insights

**Positioning and communication:** Capacity to ensure USJF’s role is visible and differentiated from passive investors

# Comparing Strategic Options: What Should USJF Prioritise?

The pathway forward depends on how USJF chooses to engage with the options. Each option offers a distinct entry point - from direct investment to ecosystem convening - and comes with its own trade-offs in terms of visibility, influence, and resource intensity. This slide compares the options across key dimensions to help USJF assess which approach best aligns with its ambition to catalyse systemic change, build trust, and generate a track record of credible, outcomes-oriented deals.

## If you value...

## You should choose...

## The benefits are...

## The trade-offs are...

Speed to market and early visibility



**Option B: Anchor Investments**

- ✓ Most direct route into the market
- ✓ Minimal complexity for financial instrument design
- ✓ Builds early credibility for USJF

- ☒ Struggle to build momentum in the market
- ☒ Reliant on a mature NPOs
- ☒ Limited

Building ecosystem capacity and tangible learning



**Strategic Recommendation: Impact Accelerator**

- ✓ Strengthens NPO demand side
- ✓ Generates collective learning
- ✓ Builds replicable model

- ☒ Slower to show results
- ☒ Higher facilitation demands
- ☒ Requires patient funders

Leverage existing entities



**Option C: Investment in Impact Funds**

- ✓ Broad reach of NPOs
- ✓ Taps into existing networks
- ✓ Accelerates entry into the market
- ✓ Low operational lift for USJF

- ☒ Lower visibility of USJF's role
- ☒ Less influence on strategy
- ☒ Reliance on existing actors and their networks

Long term system shaping



**Strategic Recommendation: Impact Accelerator**

- ✓ Aligns funders and NPOs around shared issues to create a consistent narrative
- ✓ Fosters trust and creates systemic proof points

- ☒ Requires a long horizon
- ☒ Impact is less visible in the shorter term

Diversification and risk mitigation



**Option C: Investment in Impact Funds**

- ✓ Exposure across multiple issue areas
- ✓ Spreads reputational and financial risk
- ✓ Portfolio learning

- ☒ Less concentrated impact
- ☒ Less control over outcomes
- ☒ Requires continue investments to demonstrate USJF's role in the market

Efficiency in resource deployment



**Most resource intense**

**Least resource intense**

- ✓ USJF plays a visible leadership role in building the ecosystem and setting precedents.





- ✓ Minimal lift for USJF's internal team

- ☒ Requires sustained staffing, facilitation, and operational investment over multiple years.

- ☒ Less direct ownership of outcomes;

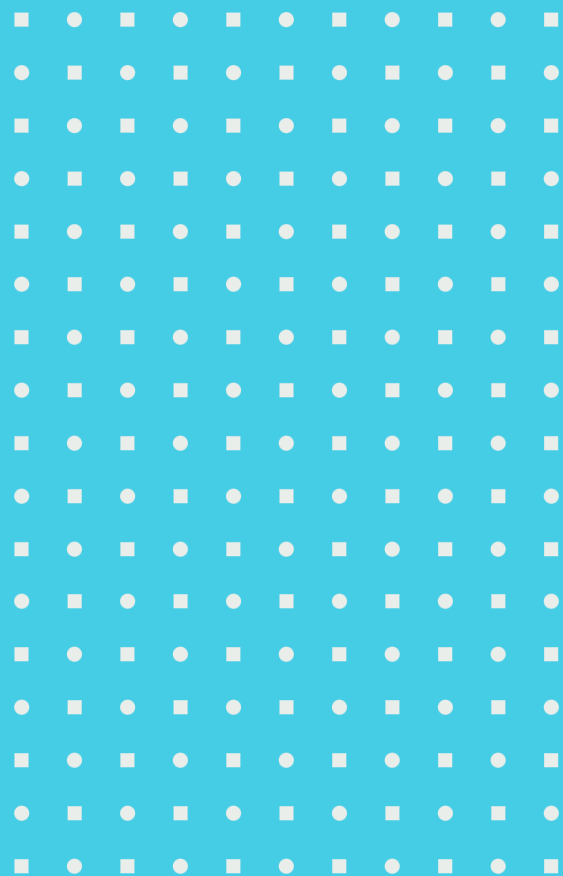
# Delivery Plan for USJF - Designing the Impact Accelerator

This report has laid out a strategic case for why USJF should pursue the **Impact Accelerator** - as its next step in shaping Japan's impact investment ecosystem. The Impact Accelerator is not just a programme; it is a market-building intervention designed to address the structural trust deficit, build NPO capacity, and generate tangible proof points that unlock cautious capital. Through a carefully sequenced roadmap, USJF can convene actors around shared outcomes, pilot new financial instruments, and embed learning across the ecosystem. This is a rare opportunity to lead from within - not by creating a new institution, but by demonstrating what is possible and enabling others to follow. With the right commitment and partners, USJF can help shift Japan's impact-first market from fragmentation to momentum, and from potential to practice.

 Why this matters?	 What we've proposed	 What will this achieve?	 What's next?
<ul style="list-style-type: none"> <li>Japan's impact investment market remains fragmented, cautious, and underdeveloped.</li> <li>Without visible proof points, aligned collaboration, and trusted conveners, capital will not flow to the organisations that need it most.</li> <li>USJF is uniquely positioned to act as a first mover - not just to fund change, but to build the conditions for it.</li> </ul>	<ul style="list-style-type: none"> <li>A strategic recommendation to pursue the <b>Impact Accelerator</b>.</li> <li>A clear theory of change and delivery roadmap, grounded in stakeholder insights and market realities.</li> <li>An implementation plan with indicative costs, including team structure and operational requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Build a pipeline of investable NPOs capable of absorbing and deploying innovative capital.</li> <li>Generate tangible proof points that shift funder behaviour and unlock cautious capital.</li> <li>Create a shared narrative around outcomes and impact, strengthening ecosystem coordination.</li> <li>Position USJF as a trusted convener, practitioner, and market-shaping actor.</li> </ul>	<ul style="list-style-type: none"> <li>Align internally on ambition and appetite for market-shaping leadership.</li> <li>Engage potential co-funders and partners to validate interest and secure early commitments.</li> <li>Decide whether to proceed with the accelerator design phase and begin recruitment for the Strategic Director role.</li> </ul>

**This is a moment of strategic opportunity. With the right commitment and partners, USJF can help shape the future of impact-first investment in Japan - not by waiting for the market to mature, but by helping build it.**

# Appendix



# To assess the opportunity for USJF to shape the market, we first examined the current state of impact investing globally and in Japan - and the role intermediaries have played in enabling growth.

In Japan, impact investing is nascent, but it has emerged from pioneering foundations to a mainstream market generating social and financial returns across sectors.

**Impact investing refers to investments made into companies, organisations, or funds “with the intention to generate positive, measurable social or environmental impact alongside a financial return”.<sup>1</sup>**

- As of 2024, the total impact investing market was estimated at \$1.571 trillion USD, with impact assets being managed by over 3,900 organisations<sup>2</sup>
- The North American market makes up 35% of the estimated global market<sup>2</sup>
- In Japan, impact investment assets under management reached 17.3 trillion yen (approximately \$110 billion USD) in FY2024, a figure that has steadily grown since 2016<sup>3</sup>
- Intermediation has been a critical enabler in developing a robust, effective and sustainable social impact market as well as catalysing the market growth<sup>4</sup>

## Impact investment transactions have these characteristics



**Intentionality:** The explicit intention to create positive social and/or environmental impact alongside financial returns.



**Measurability:** The commitment to measure, manage and report on social and environmental performance and outcomes using frameworks like impact measurement systems, theory of change models, and standardised metrics.



**Financial Returns:** The expectation of financial returns that can range from below-market rate (concessional) to market-rate returns, depending on the investment structure and social outcomes targeted.

## ...with the aim of



...addressing social or environmental challenges while generating financial returns



...demonstrating accountability and transparency in the social and environmental outcomes being delivered

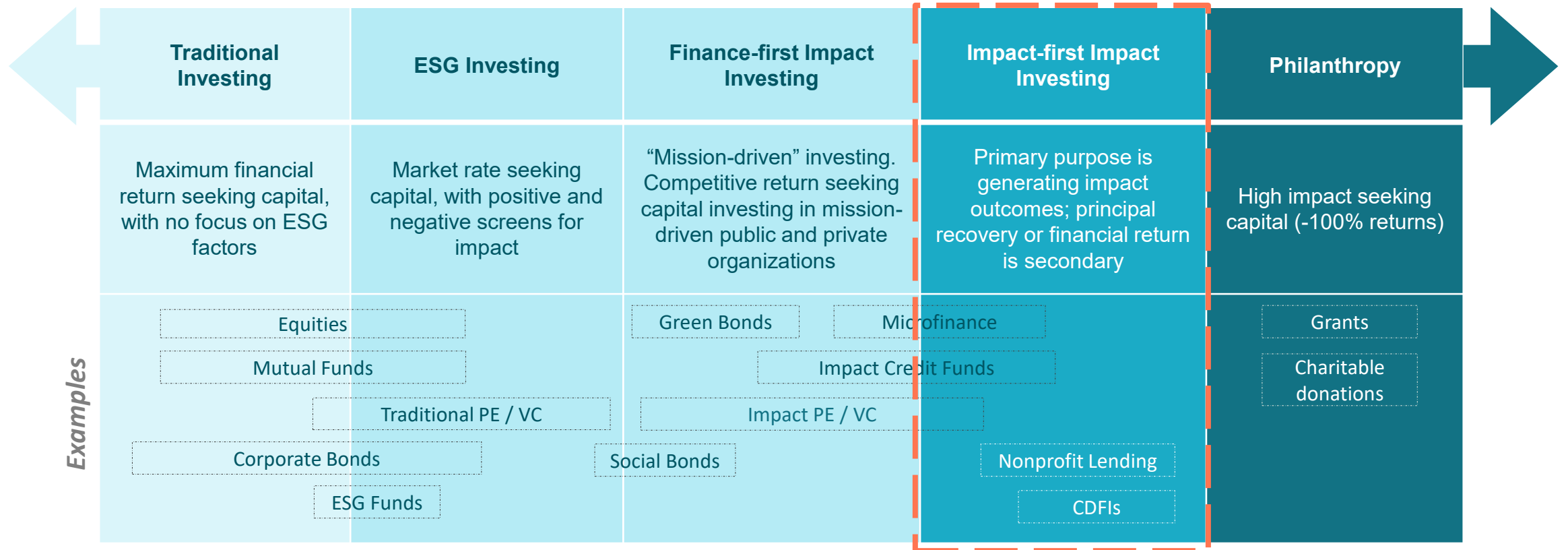


...ensuring financial sustainability and enabling capital recycling for continued social impact investment

*While Japan’s impact market is growing, much of this growth reflects definitional shifts due to reclassification of existing financial products and investments rather than genuine innovation in capital deployment – highlighting the need for catalytic actors and credible proof points*

# The Spectrum of Investing

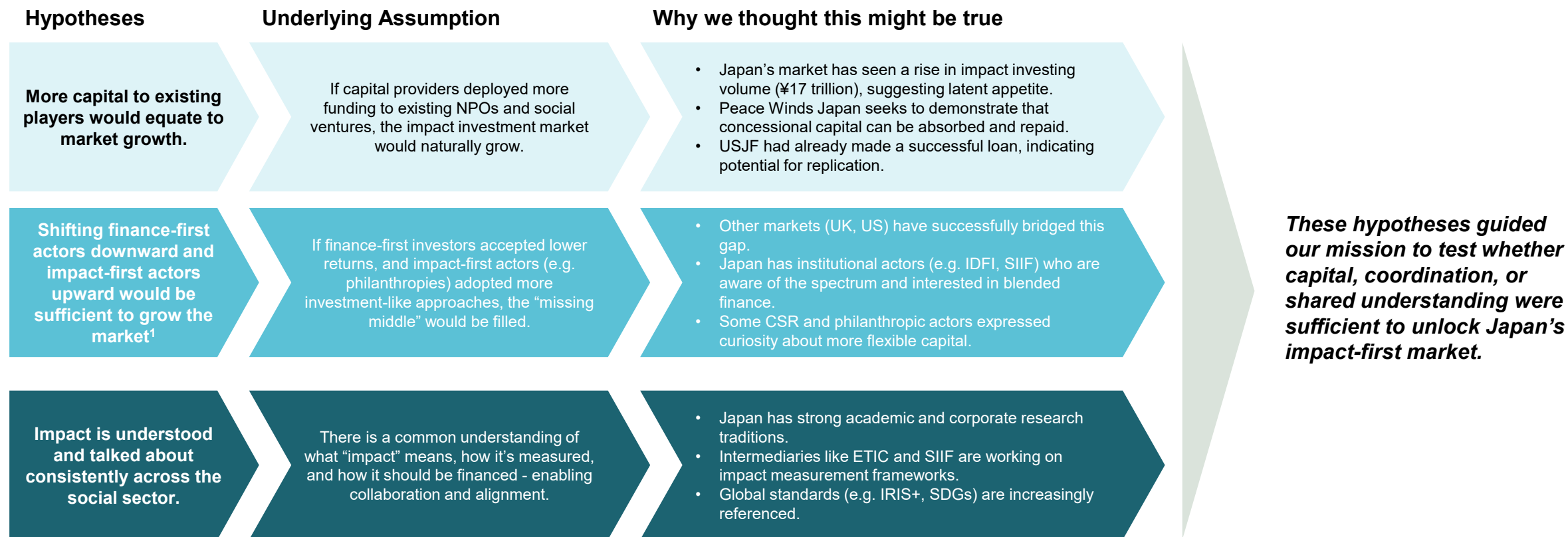
While impact investing spans a wide spectrum of approaches, this research focuses specifically on the impact-first segment – where capital is deployed primarily to achieve social outcomes, with achievement of financial return as a secondary concern. This is the part of the market most in need of catalytic capital and where USJF is best positioned to lead. The following illustration shows how different investment approaches relate to one another and where our strategic focus lies.



While Japan's market has grown in volume, much of this growth reflects finance-first reclassification rather than genuine innovation. The impact-first segment remains underdeveloped, with few credible proof points and limited NPO readiness. USJF is uniquely positioned to catalyse this part of the market - bridging the gap between philanthropy and finance.

# We used a hypothesis-led approach to shape our mission

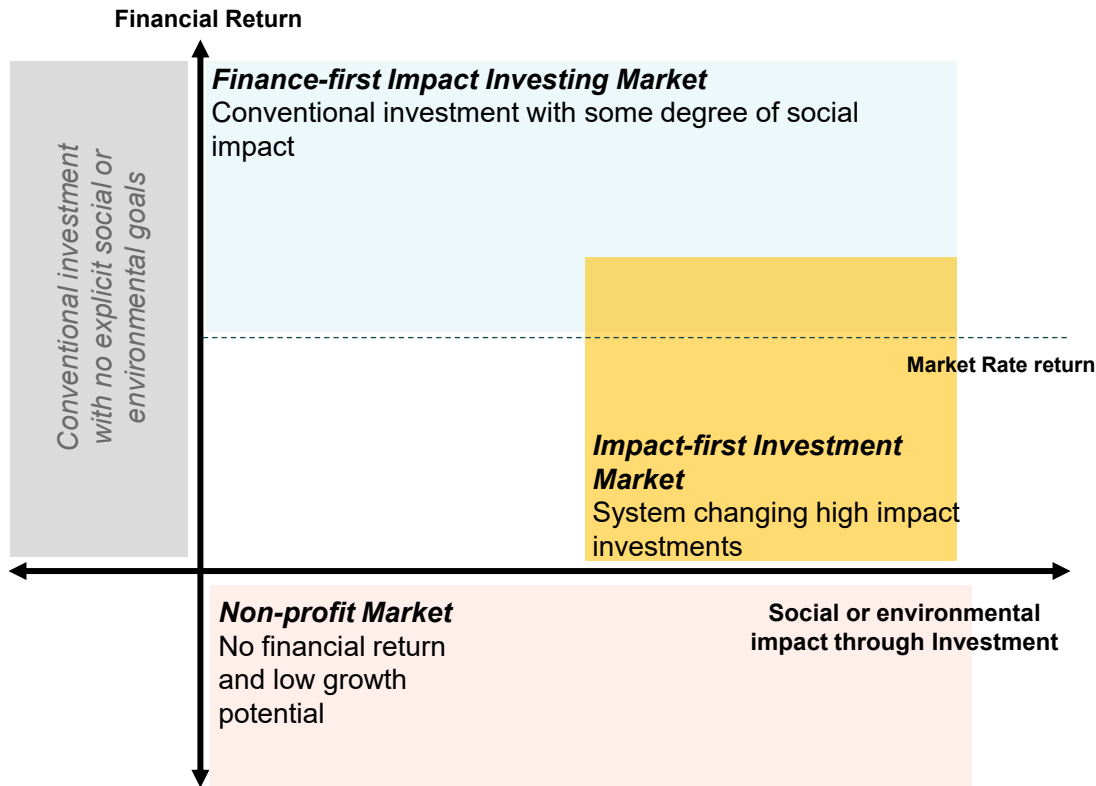
To understand whether USJF could play a catalytic role in shaping Japan's impact-first investment market, we adopted a hypothesis-led approach. This allowed us to test assumptions about how capital flows, how impact is understood, and what conditions are needed for ecosystem growth. Japan's market is fragmented, with a visible gap between finance-first investors and grassroots NPOs. By framing our mission around targeted hypotheses, we were able to surface structural barriers, validate appetite, and identify actionable entry points. This approach helped us move beyond abstract market analysis and into grounded, stakeholder-informed strategy - ensuring that our recommendations reflect both the realities and the ambitions of Japan's social investment ecosystem.



# Understanding the Missing Middle in Japan’s Impact Investment Market

Japan’s social investment landscape is polarized: traditional philanthropy focuses on short-term grants, while finance-first investors seek market-rate returns. Between these poles lies an underdeveloped space — the “missing middle” — where impact-first capital could unlock high social returns while offering partial financial recovery.

## Social and environment impact realised through investment



## This segment is underserved because of...

- Limited availability of flexible, patient capital** that prioritises social outcomes over financial returns
- Constraints on funders**, such as fiduciary duties and reputational risk, which prevent experimentation.
- Non-profits and social ventures** being trapped in grant cycles, lacking access to capital that supports scale and innovation.

The missing middle represents a market-making opportunity: by deploying catalytic capital (e.g. concessional loans, recoverable grants), funders can unlock new models, build investable pipelines, and bridge the gap between philanthropy and finance. Globally, similar approaches have proven effective — Japan now has the chance to follow suit.

# We used a hypothesis led approach to shape our mission

To move from assumption to insight, we tested each hypothesis throughout the mission in stakeholder interviews and roundtables. While each hypothesis reflected a plausible pathway for market growth, our findings revealed deeper structural challenges. Capital alone did not drive scale. Investor movement across the spectrum was constrained by institutional norms, and definitions of impact varied widely which can undermine efforts for collaboration. These results pointed us toward four systemic barriers that must be addressed for Japan's impact-first investment market to mature: an immature and fragmented ecosystem, capital deployment challenges, coordination failures, and cultural resistance to innovation.

Hypotheses	Validated?	What we found
More capital to existing players would equate to market growth.	Partially	<ul style="list-style-type: none"> <li>Capital alone is insufficient. Many NPOs lack the capacity, governance, or financial literacy to absorb repayable capital.</li> <li>Without shared outcomes or credible proof points, funders remain cautious.</li> <li>Existing players often operate in silos, and additional capital doesn't automatically lead to collaboration or scale.</li> </ul>
Shifting finance-first actors downward and impact-first actors upward would be sufficient to grow the market	Not Validated	<ul style="list-style-type: none"> <li>Structural constraints (fiduciary duties, reputational risk, HQ oversight) prevent finance-first actors from moving into impact-first investing</li> <li>Philanthropies are culturally and legally constrained - grant-only mindsets dominate.</li> <li>There is no shared language or framework for what "impact-first" investing looks like in Japan.</li> </ul>
Impact is understood and talked about consistently across the social sector.	Not Validated	<ul style="list-style-type: none"> <li>Definitions of impact vary widely: funders focus on outputs, NPOs on context-specific change.</li> <li>Measurement is often compliance-driven, not learning-driven.</li> <li>There is no shared national narrative around priority social issues (e.g. child outcomes, ageing, gender equity). Collaboration is often transactional - not built on shared problem definitions or outcomes.</li> </ul>

These findings revealed deeper systemic challenges that must be addressed for Japan's impact-first market to grow:

-  **Immature Ecosystem and Fragmentation**
-  **Capital Structure and Deployment Challenges**
-  **Co-ordination Failures and Leadership Gap**
-  **Cultural & Structural Barriers to Innovation**

# Option D: Set up a new entity

## Key operational questions

Establishing a new entity could offer long-term systemic value, but the current ecosystem may not be ready. This slide outlines the risks, unknowns, and critical questions that must be answered before this option becomes viable.



### Systemic Influence

#### Risk

A new entity could offer long-term systemic value, but without a validated business model, it risks being premature, misaligned, or perceived as duplicative.

#### Mitigation

Treat Option C as a future ambition, contingent on USJF first building credibility, partnerships, and a track record through the strategic recommendations and Options A/B.



### Key questions

#### Risk

The business case for a new entity is not yet established. Key elements remain undefined - including the business model, mandate, governance structure, and funding strategy. Without clarity on these foundational aspects, the initiative risks stalling or misalignment with ecosystem needs.

#### Mitigation

Treat Option D as a longer-term ambition, contingent on progress through the other options. Use early interventions to test demand, build credibility, and clarify USJF's strategic role. If ecosystem gaps persist and USJF's positioning strengthens, revisit the case for a new entity with a robust feasibility assessment.



### Perception of USJF

#### Risk

USJF may be seen as overreaching or attempting to compete with existing intermediaries, especially if the ecosystem is not ready for a new institution.

#### Mitigation

Position USJF as a collaborative ecosystem builder, not a competitor. Emphasise that this option is exploratory and would only be pursued with sector-wide support.



### Readiness

#### Questions to answer before Option C is viable:

We do not recommend pursuing Option D at this stage. A compelling business case does not yet exist. However, if USJF wishes to explore this in the future, the following questions must be answered first.

- **Leadership & Mandate** - Who is the right individual/team to lead, and what authority will they have?
- **Governance & Partnerships** – Which funders, institutions, or government actors must sit at the table to ensure legitimacy?
- **Financial Sustainability** – What is the long-term funding model (anchor funders, endowment, fee-based)?
- **Unique Value-Add** – What gap in Japan's ecosystem would this entity fill that current actors do not?