
DI REPORT

SIB

Social Impact Bond

Description of Social Impact Bond

July 13, 2021 | Dream Incubator Inc.

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DI

Introduction

POINT 1

To keep up with the accelerating pace of change in the world and address impacts from social challenges – lower fertility rate, aging population, population decline, climate change, to name a few – organizations **need to transform in many aspects of doing business.**

- Social sustainability goals strongly urge businesses to pursue social impact-driven business activities.

POINT 2

Social impact initiatives require the participation of many different stakeholders, including public sector entities. However, a **proactive stakeholder engagement is hard to achieve with only traditional approaches.**

- Central and municipal governments may encounter financial constraints and hence have difficulty engaging in alternative financing models.

POINT 3

It is the corporate mission of DI to “Create Businesses and Change Societies”. DI is **actively promoting the adoption of Social Impact Bonds (“SIBs”) as a scheme to address the above challenges, seeking to “change” Japan’s society.**

- This report aims to provide a brief overview of SIBs and Dream Incubator’s (“DI”) related efforts, in the hope that this will be helpful for concerned organization leaders, businesses, and municipal governments who share the same vision.

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2. SIB: A novel solution to social issues

3. Early examples of SIBs

4. The applicability of SIBs in Japan

5. DI's SIB initiatives

The government's dilemma

Innovation remains hard due to low financial risk appetite



Government

The need to provide social services of high quality

- The government seeks to resolve problems in areas where public-sector services alone are often insufficient to deliver the best possible outcomes

The need to leverage private sector's know-how

- The government seeks to design social services using state-of-the-art technology and know-how in areas they may have no expertise

Because public money is spent, a risk-averse government will demand strict compliance with the contractual specifications, which may hinder the practice of open innovation in public service delivery

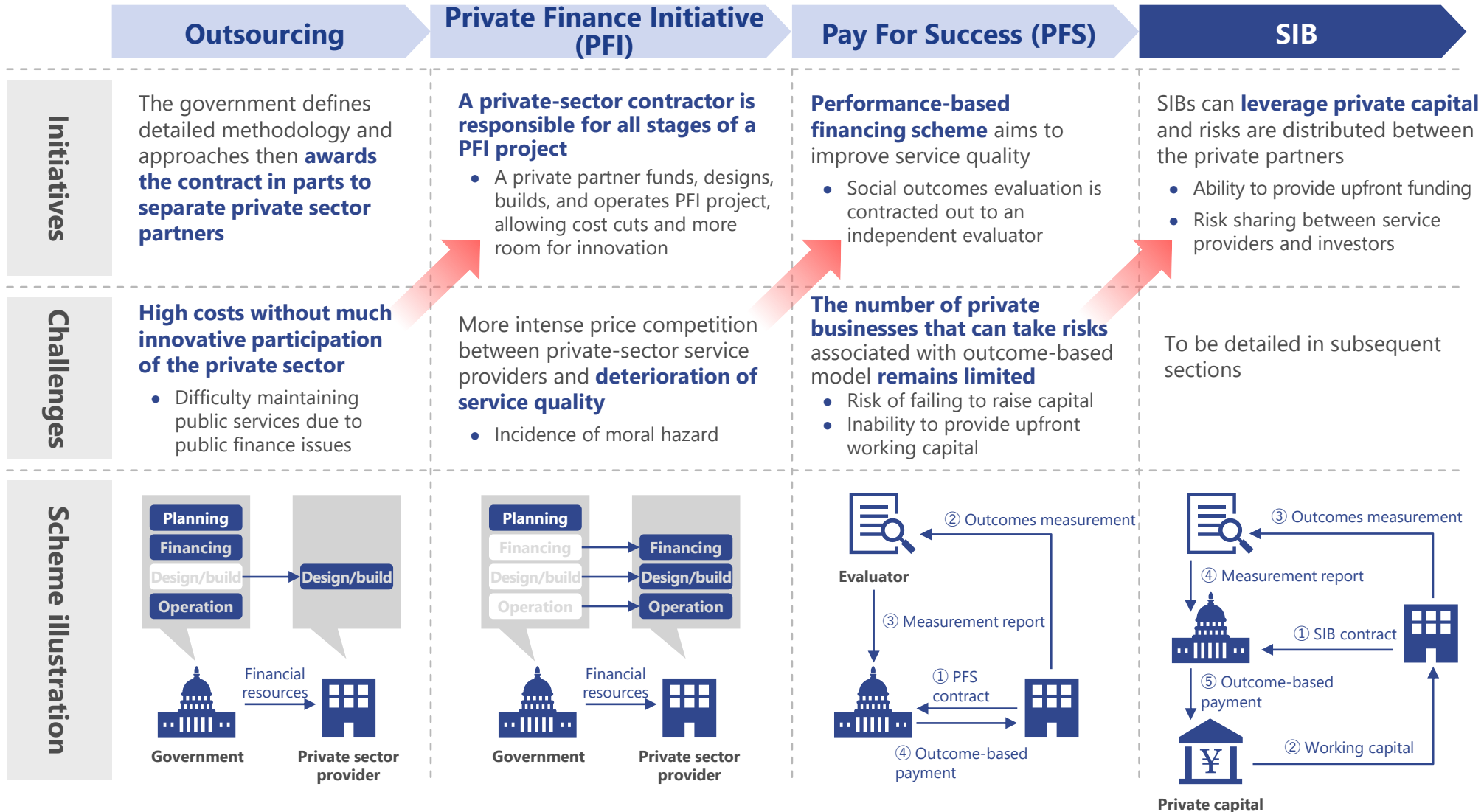
- More focus is put on explaining the use of public funds rather than on service quality or efficiency
- In some cases, project implementation itself is out of the question when sufficient evidence of expected outcomes is not proven available

Consequence

These patterns make transformative and impactful social innovation unlikely to take place

History of SIB

SIB, used as a solution to the government's dilemma, is the latest form of outcome-based public-private partnership for the delivery of public services



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2. SIB: A novel solution to social issues

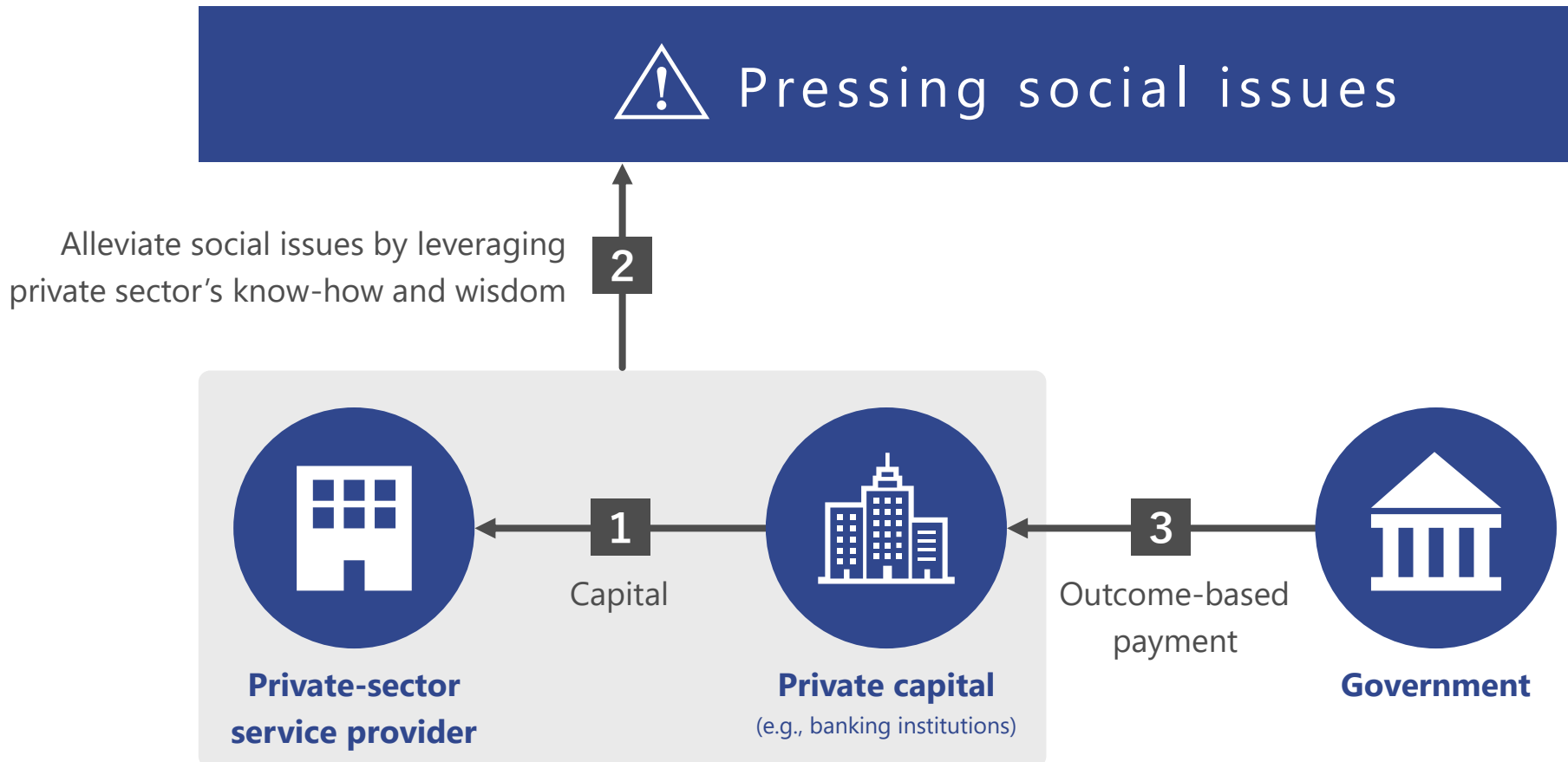
3. Early examples of SIBs

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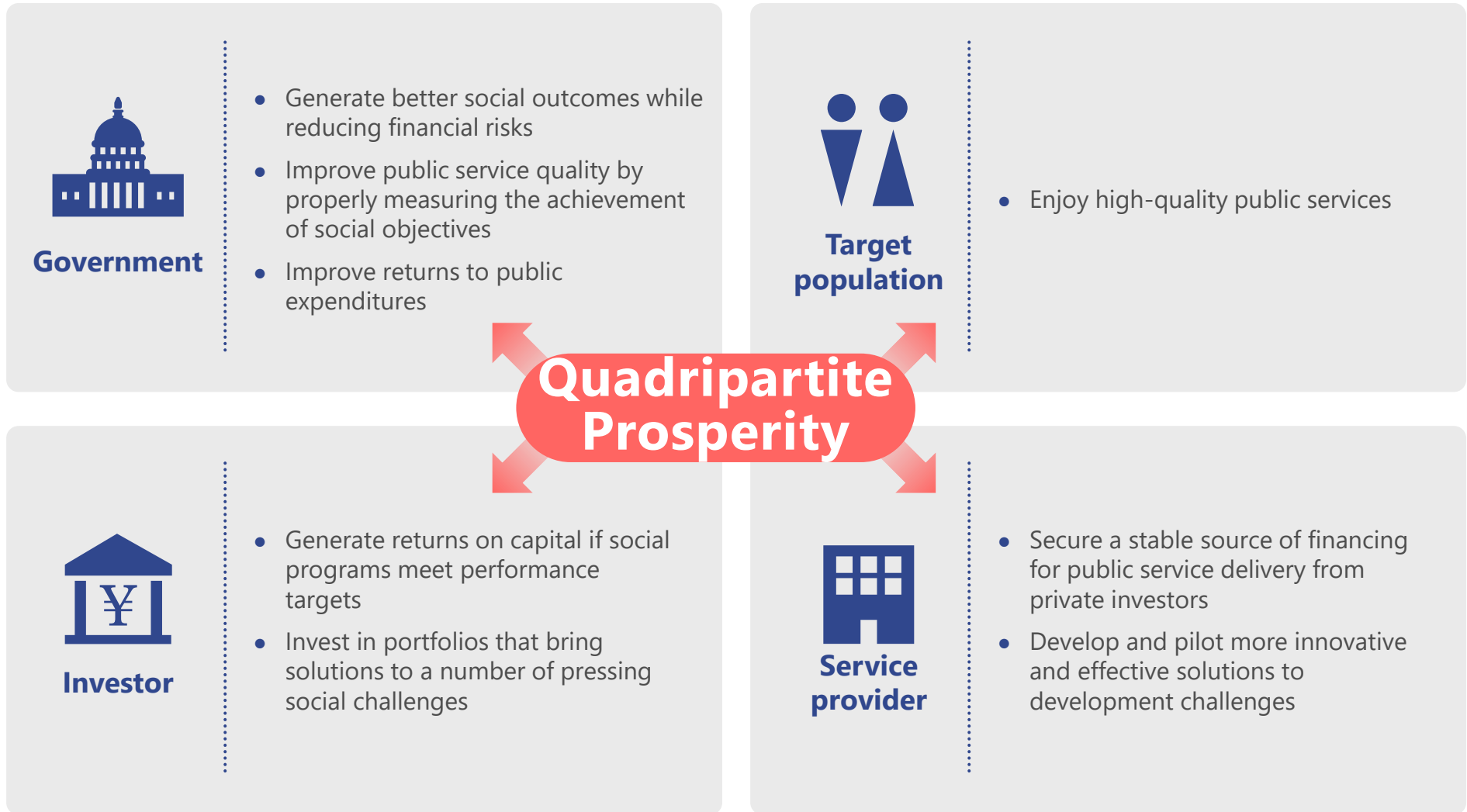
A typical structure of SIB

SIBs help mitigate risks for private stakeholders and provide the government with an outcome-based payment scheme, enabling innovative solutions to a range of social challenges



Benefits of stakeholders

SIBs benefit all stakeholders in various aspects



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▶ **3. Early examples of SIBs**

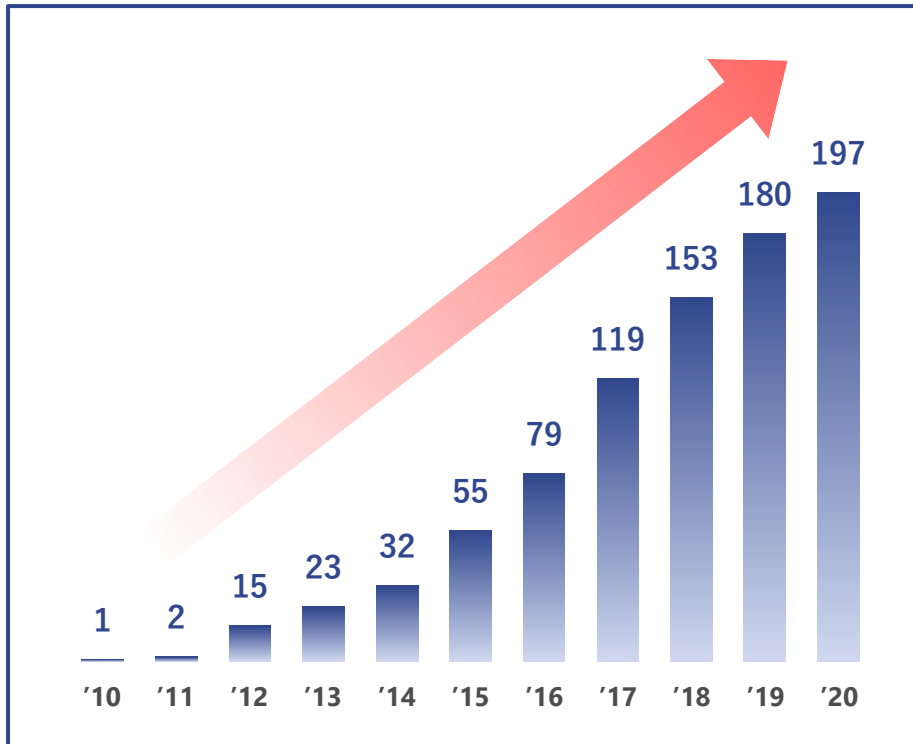
4. The applicability of SIBs in Japan

5. DI's SIB initiatives

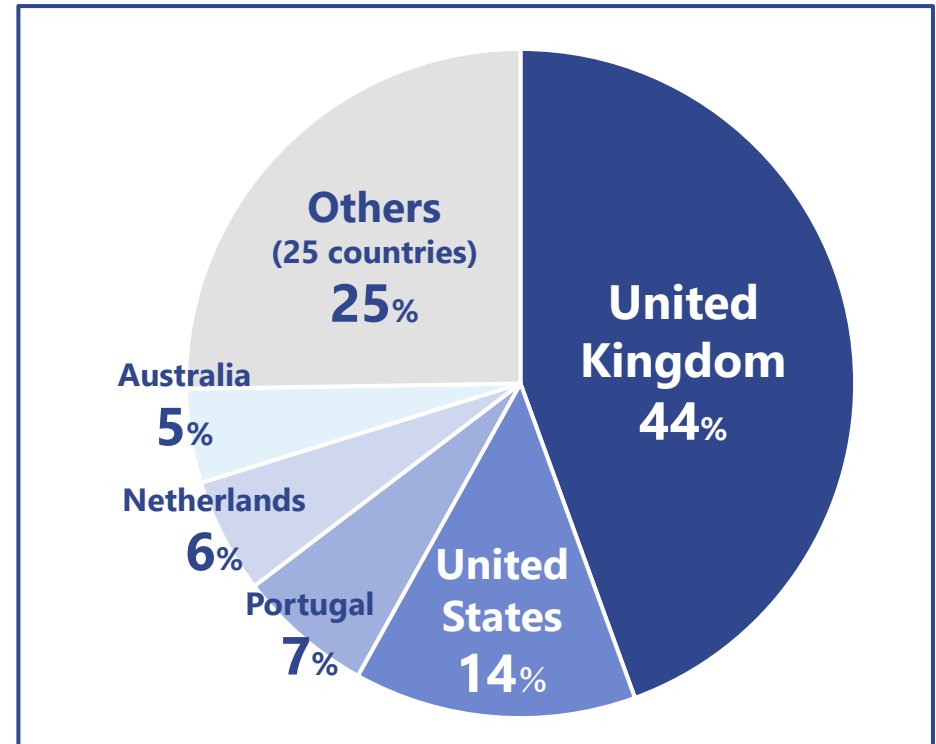
A global snapshot of SIBs

The use of SIBs has emerged across the globe, particularly in Western countries

Cumulative SIBs contracted worldwide



Percentage of SIBs by country



Real-world examples of SIB programs

【Example 1】 Re-offending prevention in Peterborough Prison (U.K.)

Overview

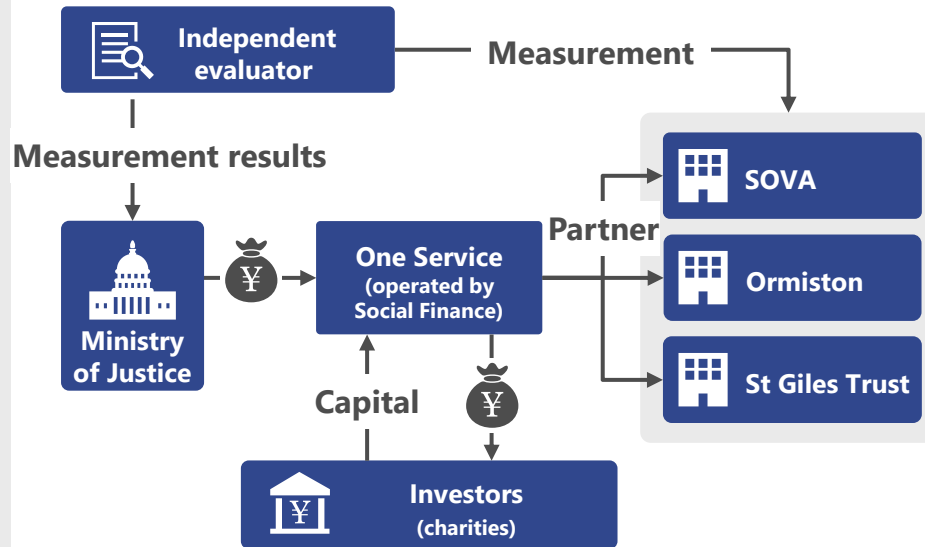
Timeline: 2010~2016 (halted in 2015)

Purpose: Reduce recidivism and save costs to the public purse for repeat offenders

→ Annual cost of £40,000 per prisoner

Target: Reduce reoffending by 7.5% overall compared to a national comparison group

Scheme illustration



Outcome

- Halted after 5 years due to a change in judicial policies made by the Ministry of Justice
- The published outcomes achieved halfway through (9% reduction of reoffending) triggered a repayment of principal plus a return of approx. 3%

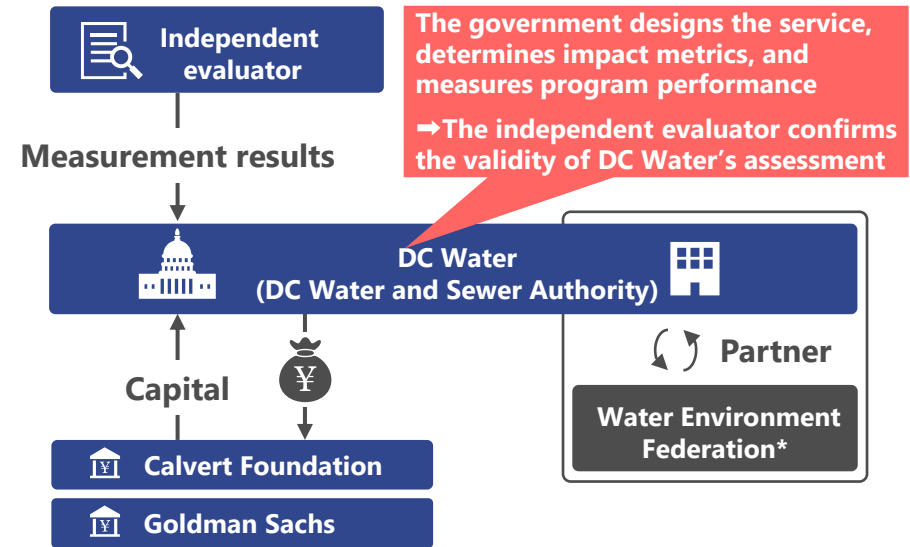
【Example 2】 Water pollution improvement in Washington, D.C. (U.S.)

Timeline: 2016~2046 (tentative)

Purpose: Save maintenance and damage costs for sewer systems through stormwater runoff control

→ Costs of heavy rainfall measures and sewer system development

Target: Reduce stormwater runoff by 18.6% or more



- Official finding has not been published yet (the interim report will be released in 2021)

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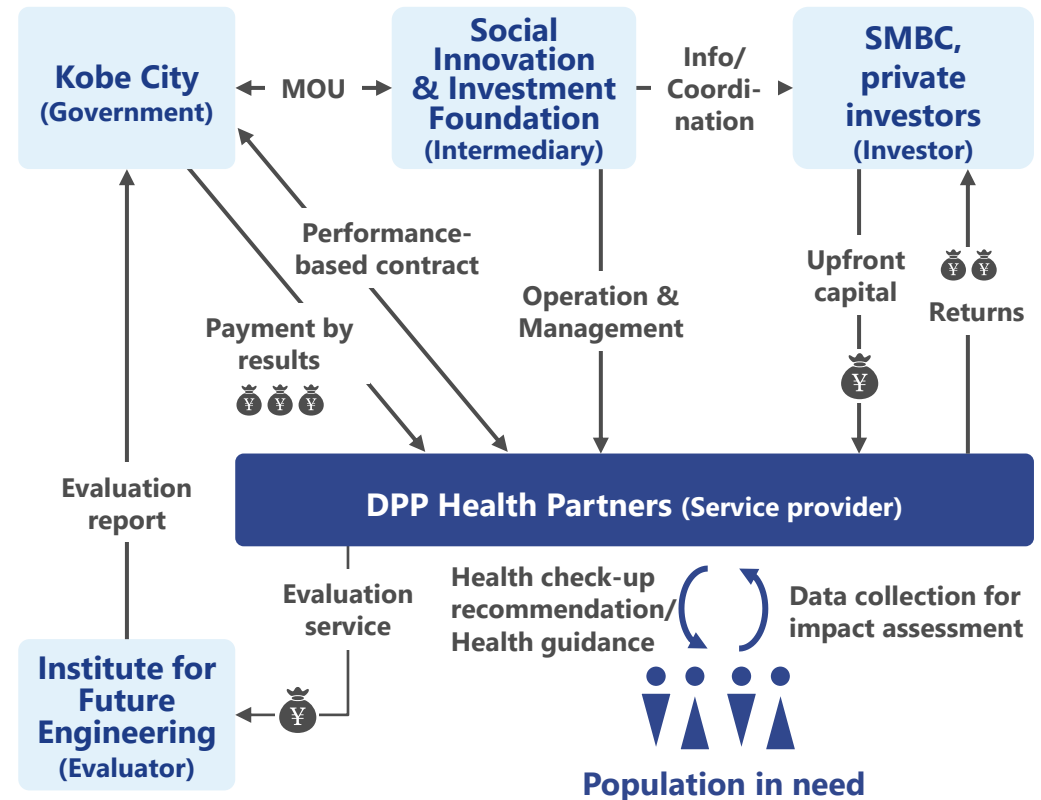
A SIB program aimed at preventing severe diabetic kidney disease in Kobe City (Japan)

Small-scale SIBs are emerging in various sectors, including health care

SIB profile

Purpose	<ul style="list-style-type: none"> ■ Prevent the progression of diabetic kidney disease and transition to dialysis <ul style="list-style-type: none"> ➢ Medical treatment for dialysis in Japan totals ¥1 tril. & remains a serious issue
Service description	<ul style="list-style-type: none"> ■ Recommend health check-ups and provide health guidance for (100) high-risk patients <ul style="list-style-type: none"> ➢ Diet, exercise, etc. ■ Investors' returns are paid based on the achievement of social outcomes and service delivery <ul style="list-style-type: none"> ➢ Service provision: Service delivery rate ➢ Outcomes: Life quality improvement, reduction of kidney failure
Interim report	<ul style="list-style-type: none"> ■ The first payment was triggered by the achievement of SIB objectives <ul style="list-style-type: none"> ➢ Service delivery rate: 100% (80%) ➢ Life quality improvement: 95% (75%)

Stakeholders



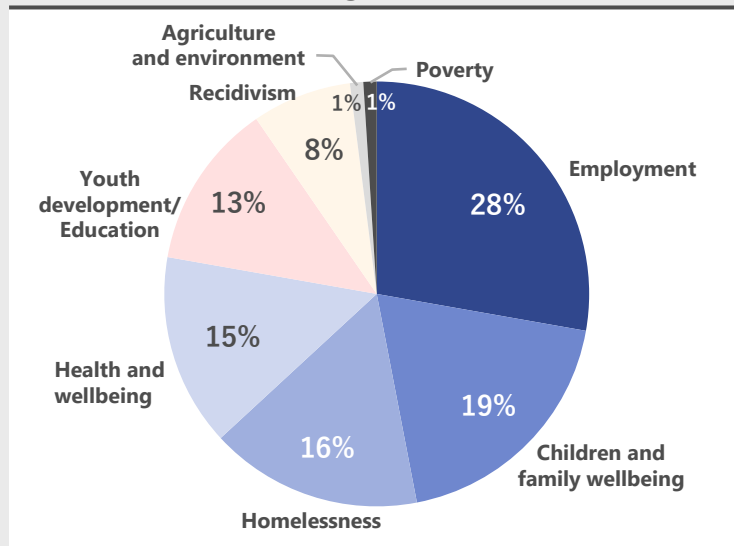
There were 18 SIB contracts initiated by 20 local authorities across Japan, most of which are health-related (as of June 2019)

Source: "Reducing ¥1 trillion medical treatment costs a year by the prevention of transition into dialysis" (The Nikkei)
 Kobe City's Interim report on check-up recommendation and health guidance program for the prevention of severe diabetic nephropathy among patients with diabetes who have not undergone medical tests, check-ups or have interrupted their medical treatment

Historical focus areas of SIBs

In general, the use of SIBs only involves a limited number of focus areas

A narrow range of focus areas



At first glance, SIBs seem to be targeting a variety of impact areas, but in fact, they only prioritize easily accessible areas

■ Easy to define outcome metrics

- Areas with existing impact metrics

■ Small scale and low risk

- Impact areas are more often addressed at an individual or regional level rather than national level

■ Short timeline

- Areas where the impact is observable within a short period of time (around a year)

Examples of SIBs contracted worldwide

	Year	Overview	Focus
United Kingdom	2010	Re-offending prevention in Peterborough	Reoffending
	2012	NEET employment support in West Midlands	Employment
	2012	Youth care reduction in Essex	Youth care
	2015	Homelessness reduction in Birmingham	Homelessness
	2016	Mental health and wellbeing improvement in Haringey	Health
	2017	HIV reduction in London (+42 other SIBs)	Health
United States	2013	Re-offending prevention in New York	Reoffending
	2013	Child education support for low-income families in Utah	Education
	2014	Homelessness reduction in Massachusetts	Homelessness
	2016	Water pollution improvement in Washington	Others
	2017	Immigrant employment support in Massachusetts	Employment
	2018	Youth care reduction in Jefferson (+20 other SIBs)	Youth care
Netherlands	2013	Employment support in Rotterdam	Employment
	2016	Re-offending prevention in Amsterdam	Reoffending
	2017	Cancer patients returning to work in the Netherlands (+8 other SIBs)	Health
Australia	2013	Reduction of housing care for youth in NSW	Youth care
	2015	Homelessness reduction in Adelaide	Homelessness
	2016	Re-offending prevention in NSW (+6 other SIBs)	Reoffending
Others	2014	Canada: Single mom support in Saskatoon	Youth care
	2015	Portugal: Computer edu. for young people in Lisbon	Education
	2017	Japan: Cancer screening rate in Hachioji (+36 other SIBs)	Health

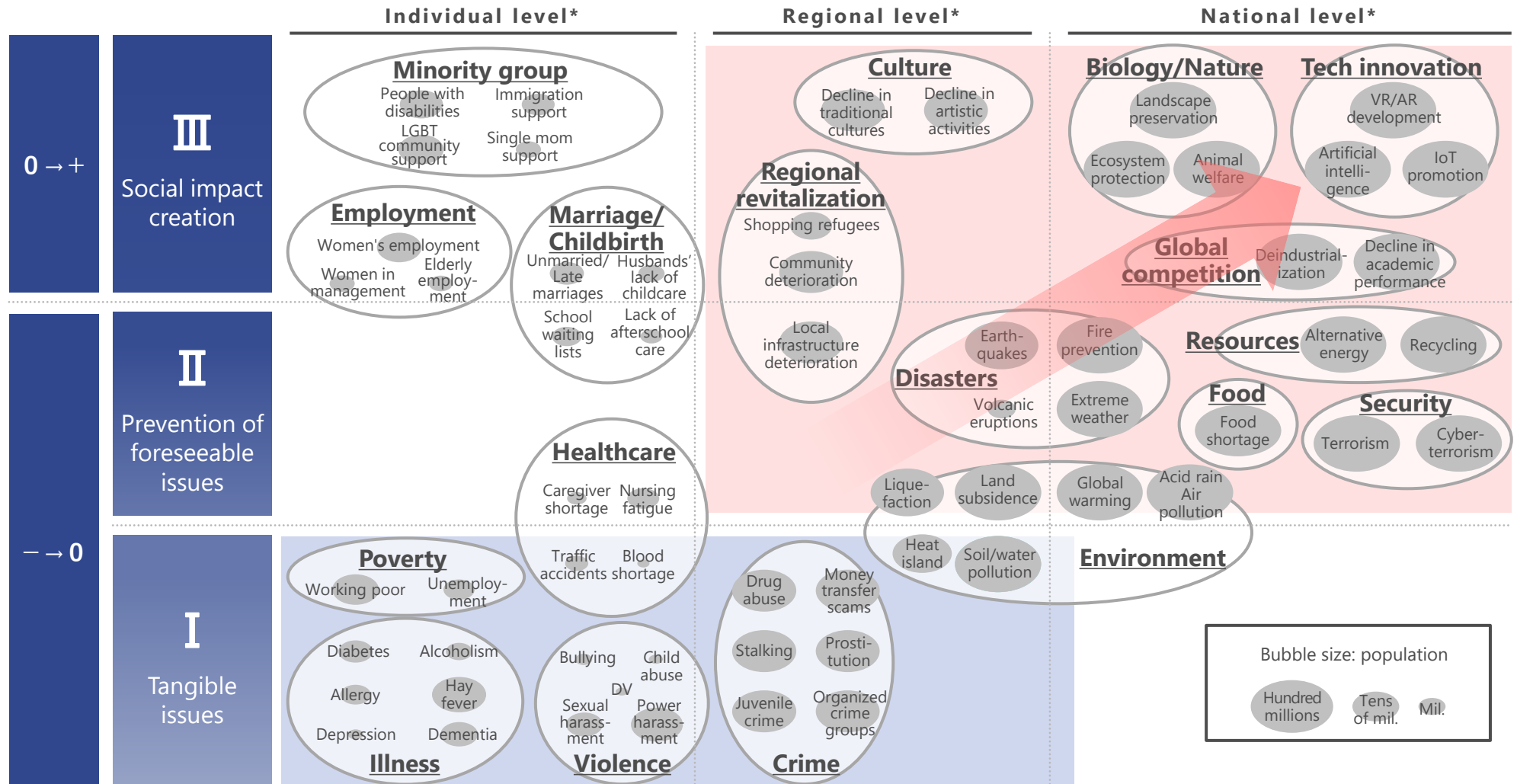
Why SIBs usually focus on a narrow range of topics?

Because SIB focus areas have varying levels of difficulty in terms of impact measurement

		Social issues (examples)	Measurement methodology	Image of impact measurement	Difficulty level
0 → +	III Social impact creation	<ul style="list-style-type: none"> Women's employment support Traditional culture promotion 	<p>Measure new social impact created through SIB interventions</p> <p>Require new metrics for measuring future orientation and development</p>		Hard
– → 0	II Prevention of foreseeable issues	<ul style="list-style-type: none"> Dementia prevention Earthquake preparedness 	<p>Measure the extent to which SIBs prevent <u>foreseeable issues</u> from occurring</p> <p>Use alternative metrics because long-term observations are required</p>		
	I Tangible issues	<ul style="list-style-type: none"> Recidivism prevention Employment support for homeless populations 	<p>Measure the extent to which SIBs improve <u>unresolved and apparent social problems</u></p> <p>Measure program outcomes using existing metrics</p>		Easy

The expansion of SIB focus areas by difficulty level

SIBs in areas of difficulty levels II and III are usually of larger scale, with most programs generating impacts at national level

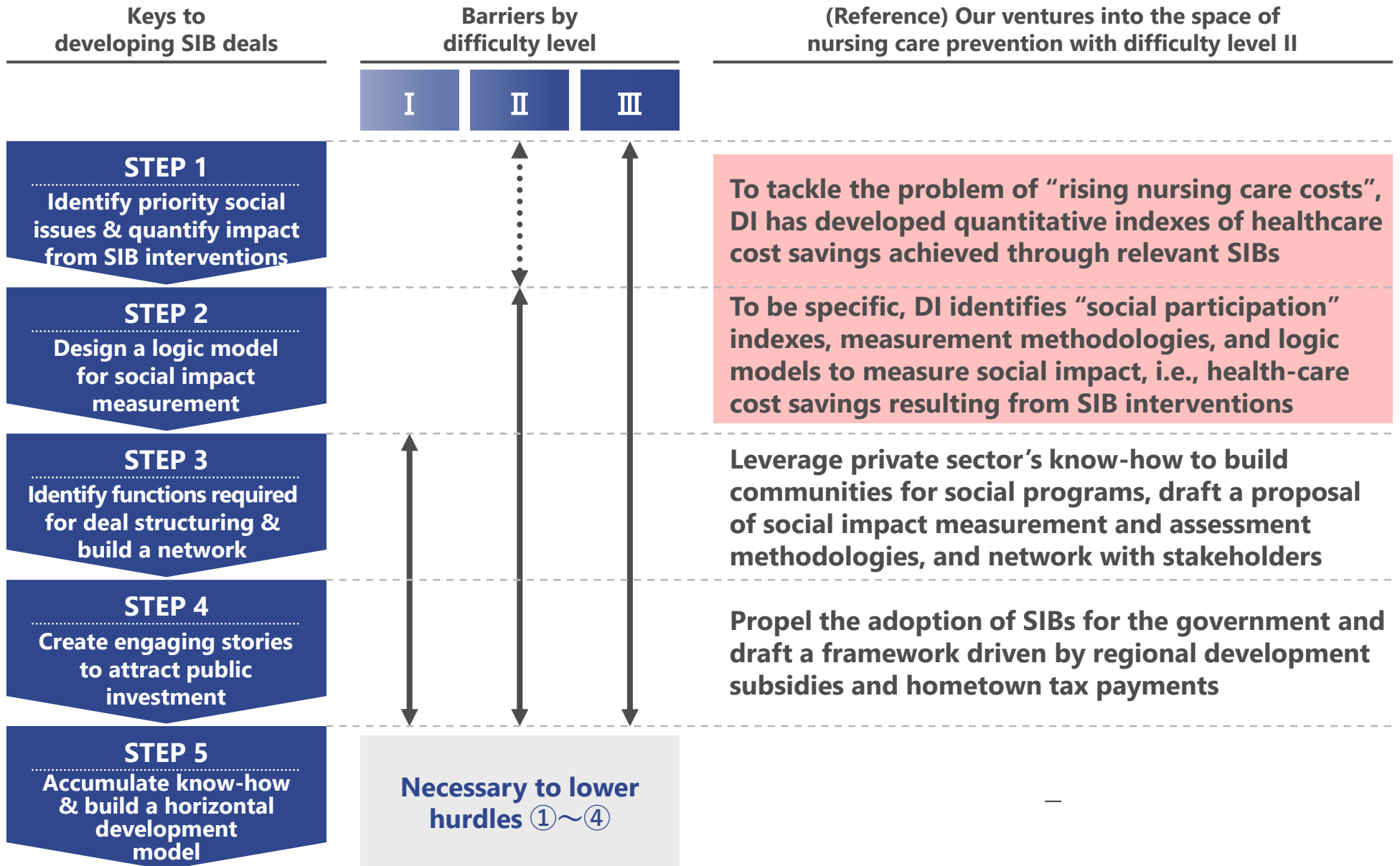


* Levels are defined as follows.
 Individual level: Size of target population is identifiable / Regional level: Target population covers a large area, but not nationwide; its size is, however, hard to identify / National level: Target population is distributed widely across the whole country / Source: Statistical data, research reports

Spaces in which SIBs are likely to create win-win situations in Japan

	SIB scheme and implication	Years needed to assess outcomes
Healthy aging	Upfront capital for “social participation services” to achieve significant healthcare cost savings <ul style="list-style-type: none"> ➤ The official verification (or estimation) of healthcare cost-savings triggers a payment of ●% returns to private investors 	3~10 years
Infrastructure repair (e.g., bridges)	Upfront capital for “preventive infrastructure maintenance” to extend useful life of assets and services <ul style="list-style-type: none"> ➤ The official verification (or estimation) of service life extension triggers a payment of ●% returns to private investors 	5~20 years
Recycling	Upfront capital for large-scale plastics recycling and high-quality waste sorting practices <ul style="list-style-type: none"> ➤ The official verification (or estimation) of economic benefits triggers a payment of ●% returns to private investors 	3~5 years
Disaster prevention	Upfront capital for “preventive maintenance for disaster prevention facilities” to significantly reduce disaster damages <ul style="list-style-type: none"> ➤ The official verification (or estimation) of damages or losses triggers a payment of ●% returns to private investors 	N/A
Children’s education	Upfront capital for “children’s education” for better employment opportunities <ul style="list-style-type: none"> ➤ The official verification (or estimation) of education (and employment) impact triggers a payment of ●% returns to private investors 	5~10 years
Town’s attraction	Upfront capital for “effective town development” for greater economic benefits <ul style="list-style-type: none"> ➤ The official verification (or estimation) of economic benefits triggers a payment of ●% returns to private investors 	3~5 years

Keys and barriers to structuring SIB deals



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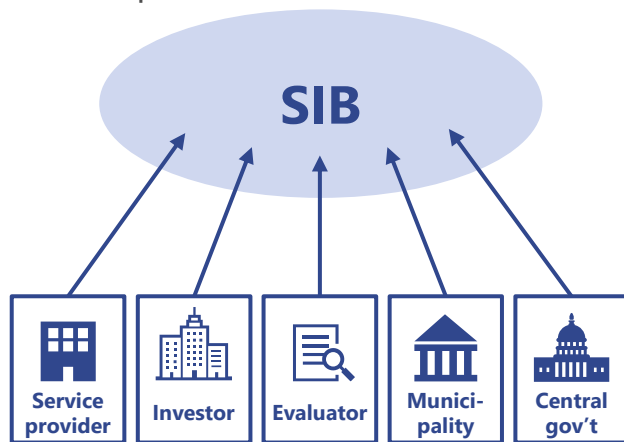
Challenges facing wide-scale SIB adoption

Obstacles of SIB deal formation include the high concentration of stakeholders, KPI setting, and the difficulty of sourcing intermediaries to assist with overall SIB implementation

Obstacle ①

SIB deal structuring requires the **involvement of many stakeholders**

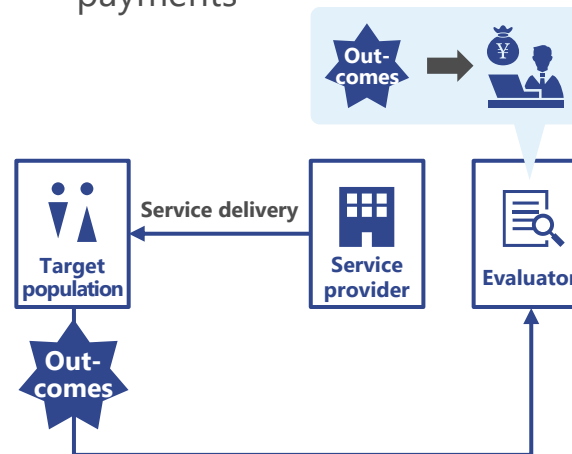
- Businesses, financial institutions, evaluators, central and local governments, etc.
- Heavy burden of management activities across SIB design~ implementation



Obstacle ②

Definition of desired outcomes (KPIs) shall be pre-determined

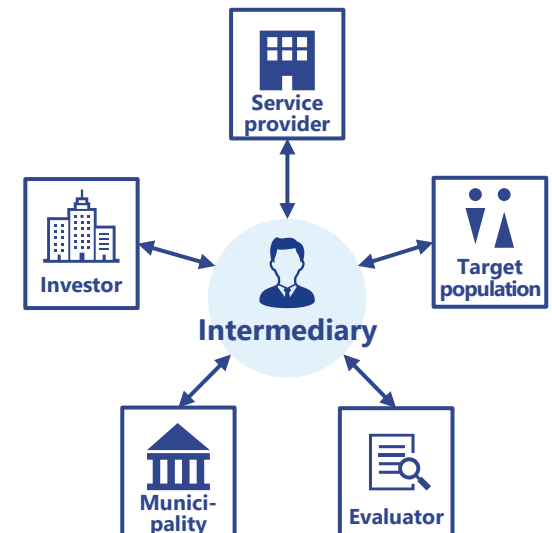
- KPIs shall be designed on a case-by-case basis as they vary greatly depending on focus area
- KPI setting is essential yet incredibly difficult because they are the basis of outcomes payments



Obstacle ③

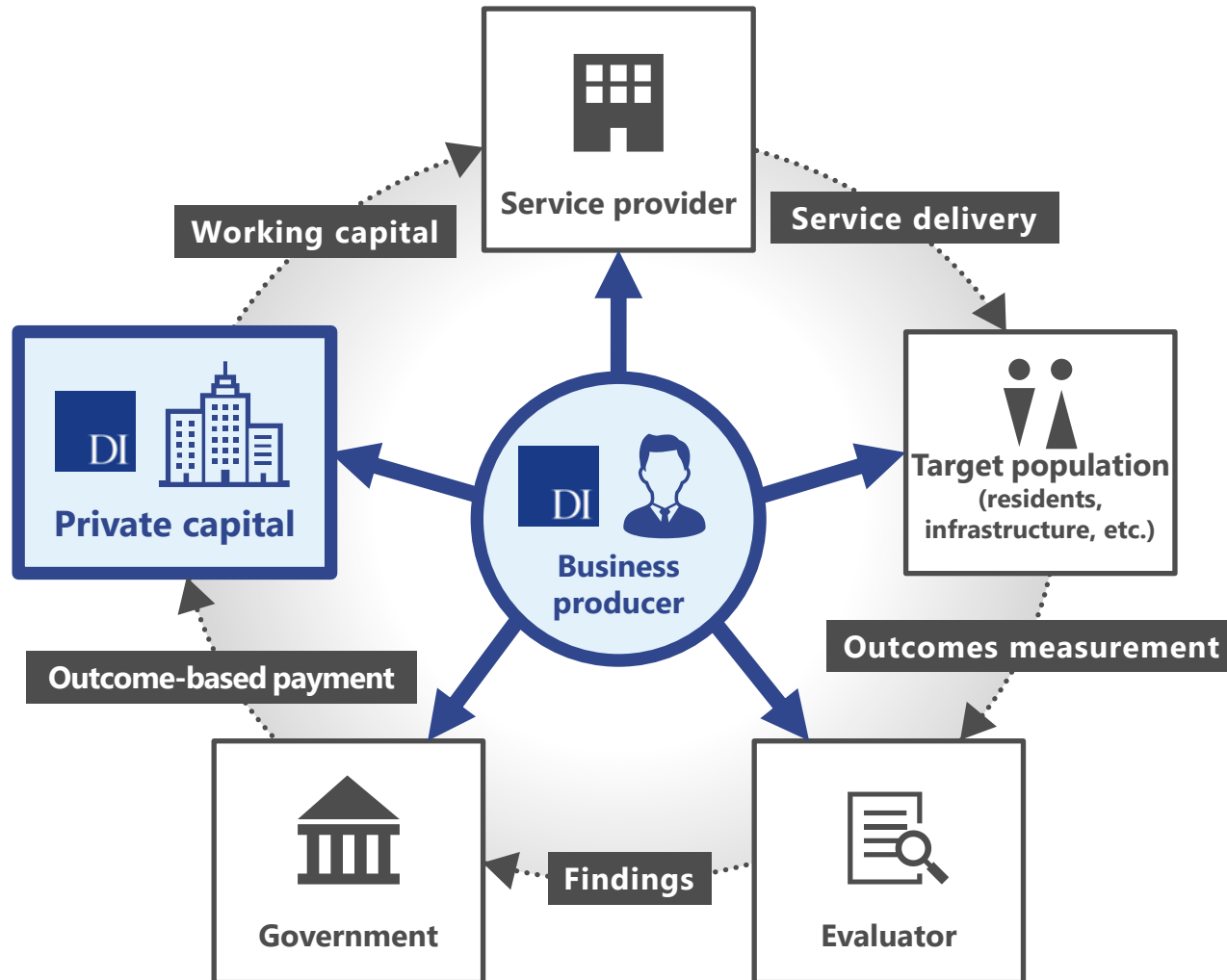
The role of an **intermediary** is vital; however, it is hard to engage them due to the lack of “juicy” returns

- Tackling ① & ② necessitates the engagement of an intermediary who provides support across all stages of a SIB – from planning, design to implementation. Yet it is difficult to reward them



DI's role in SIB deals

In addition to the investor role, DI stands at the center of SIB model to connect all stakeholders and provide support for a seamless project implementation and management



DI and several municipalities (cities) have started joining hands for the rise of SIB

Collaboration with local governments

Toyota City

February 25, 2020 press release concerning MOU conclusion

【ドリームインキュベータ】豊田市と社会課題を解決するための新たな官民連携の仕組みであるソーシャルインパクトボンドに関する覚書を締結

株式会社ドリームインキュベータ

2020年2月25日 15時30分



株式会社ドリームインキュベータ（代表取締役社長 山川 隆義、以下DI）、及び、愛知県豊田市（市長 太田 稔彦）は、社会課題を解決するための新たな官民連携の仕組みであるソーシャルインパクトボンドの活用に向けた調査・研究に関する覚書を締結することになりましたので、お知らせいたします。



Maebashi City

May 8, 2020 press release concerning MOU conclusion

【ドリームインキュベータ】前橋市と社会課題を解決するための新たな官民連携の仕組みであるソーシャル・インパクト・ボンドの導入に向けた検討を開始

株式会社ドリームインキュベータ

2020年5月8日 15時30分



株式会社ドリームインキュベータ（代表取締役社長 山川 隆義、以下DI）、及び、群馬県前橋市（市長 山本 龍）は、社会課題を持続的に解決するための新たな官民連携の手法であるソーシャル・インパクト・ボンド（以下SIB）の導入に向けた検討を開始することになりましたので、お知らせいたします。



Summary of dialogues concerning key topics

■ Healthy aging

- Clarify the **impact of nursing care prevention** initiatives implemented by the municipalities to identify the **resulting nursing care cost savings**
- Enable greater social impact with **new approaches towards upgrading existing services provided under SIBs**

■ Infrastructure (public facilities, bridges, etc.)

- Explore ways to structure **preventive maintenance SIBs** aimed at **lowering maintenance costs** needed for aging public facilities and bridges

■ Recycling

- Provide **upfront investment to scale up plastics recycling and high-quality waste sorting businesses** to generate significant economic benefits

■ Other areas

- Discussions revolve around health care, disaster prevention, etc.

Steady progress has been made in SIB design and stakeholder engagement

However, the underlying challenges and fine-tunes necessary to smooth out SIB adoption at a regional level are becoming increasingly tangible

Launched the first SIB in Toyota City focusing on senior care

Press release (dated June 30, 2021)

Overview

株式会社ドリームインキュベータ 🕒 2021年6月30日 16時00分

2
いいね!
シェア

ツイート はてな 素材DL その他

株式会社ドリームインキュベータ（東京都千代田区、代表取締役社長COO 三宅 孝之、以下DI）は、愛知県豊田市（市長 太田 稔彦）より受託した、ソーシャルインパクトボンドを活用した新たな官民連携介護予防「ずっと元気！プロジェクト」における社会参加促進サービスの提供を開始することとなりましたので、お知らせいたします。



ミライのフツをつくろう



未来都市とよた

●豊田市官民連携介護予防「ずっと元気！プロジェクト」の概要：

本プロジェクトは、コロナ禍を踏まえた新たな社会参加促進サービスを、豊田市在住の高齢者の方々に提供することにより、将来的な要介護リスクを低減させ、長く元気に健康で暮らしていただくことを目的としています。本プロジェクトを通じて、豊田市在住の高齢者の方々の、日々の生活における幸福度や満足度の向上・豊かな暮らしづくりに貢献していきます。

実施にあたっては、多数の事業者の方々のご協力をいただいております。運動・趣味・エンタメ・就労など、多様なテーマの社会参加促進サービス提供が予定されております。

なお、本事業は、当社グループ会社である合同会社Next Rise ソーシャルインパクト推進機構が、サービス提供を行う事業者の選定や取りまとめといった事業の運営・推進を担っています。

Purpose

Contribute to better health and wellbeing for seniors residing in Toyota City, reduce their nursing care costs and their risk of entry into long-term care

Operator

Next Rise Social Impact Action LLC (“NRS”) is contracted by Toyota City

- To operate and promote social services

Service description

Provide seniors in the town with a variety of social participation services, such as exercise and physical activities, hobbies, entertainment, etc.

- Service providers are picked by NRS

Service period

July 1, 2021～June 30, 2026

Targets

Expected savings in health care costs:
Around ¥1 billion
Target population*: About 5,000 individuals per year

Launched a SIB fund

Press release (dated July 1, 2021)

サステナブルな社会課題解決を目指し、日本初・アジア最大のソーシャル・インパクト・ボンド（SIB）ファンドを組成

～ 日本政策投資銀行・日本生命が出資 ～

株式会社ドリームインキュベータ

🕒 2021年7月1日 09時00分



株式会社ドリームインキュベータ（東京都千代田区、代表取締役社長 三宅 孝之、以下DI）は、社会課題の解決を目的に、ソーシャル・インパクト・ボンド（以下、SIB）を投資対象としたSIBファンド「Next Rise ソーシャル・インパクト・ファンド投資事業有限責任組合」（以下、本ファンド）を組成しました。

また、株式会社日本政策投資銀行（東京都千代田区、代表取締役社長 渡辺 一）及び日本生命保険相互会社（大阪府大阪市、代表取締役社長 清水 博）と本ファンドに対する出資契約を締結したことをあわせてお知らせいたします。



■背景・理由

ソーシャル・インパクト・ボンドは、行政が民間資金を活用して行う成果連動型の事業であり、近年、社会課題を解決する新しいインパクトファイナンスのスキームとして注目されています。

SIBは、介護予防、公共施設・インフラ、医療など、事前に予防することで将来発生する可能性のある課題を未然に防ぐことができる分野に適用しており、地方自治体の財政支出の中長期的な削減効果が見込まれる分野での導入が期待されています。

Fund profile

Fund name

Next Rise Social Impact Fund
Investment Limited Partnership

General partner

DI Social Impact Capital Co., Ltd.

- A wholly-owned subsidiary of Dream Incubator Inc.



Fund size

Initial funding of ¥3 billion (up to ¥5 billion)

Inception date

July 1, 2021

Investors

Development Bank of Japan Inc.
Nippon Life Insurance Company
Dream Incubator Inc.

Fund term

10 years

Conclusion: To build momentum for SIBs, there is a call for uniform coordination between various stakeholders

Municipalities

A flexible approach **that does not stick rigidly to existing processes is crucial. A clear image of how to mobilize success rewards** should be the starting point of everything else. The structuring of SIBs which are tailored to each focus area requires cooperation with the government (+private sector).

Service providers

Service providers should look at business segments that have been neglected due to low profitability (e.g., seniors employment support, high-priority infrastructure maintenance projects) to **find opportunities to turn social value into valuable business.**

Investors/ Financial institutions

ESG/SDGs investment opportunities abound. A new medium-risk medium-return model should be in place. Financial resources are vital to nurture high-value intermediaries.

Academia/ Evaluators

It is important to engage private partners in the **accumulation and analysis of meaningful data** in various verticals (for example, the largest nationwide research project on Japan's older population named JAGES) and **drive the government to use valid KPIs.**

Central government

It is urgent to consider launching impact funds. Immediate impact on operational efficiency of regional development subsidies, hometown tax system, and special zones could be seen. The central government is forced to take the lead in addressing the **wrong pockets problem and national/prefectural/municipal-level jurisdictional issues.**

The bottleneck is the mindset of players who think, "If all the other conditions were satisfied..."

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