

Stanford SOCIAL INNOVATION^{Review}

Supplement
Creating Systemic Change
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OVERVIEW: JAPAN

Creating Systemic Change

Japan is opening the door to new approaches, such as social enterprise, for solving its pressing social problems.

BY KEN ITO

Japan has long had efficient government services as well as a highly competitive commercial market. As a result of this structure, the scale and role of social enterprises or nonprofit organizations is small compared with third-sector entities in countries with different structures or relatively small governments, such as the United States.

Nonetheless, social enterprises and nonprofits in Japan are important: They are the source of social innovation, which can create systemic changes in society, such as

new social systems, legal systems, and business models. They can also serve as models for third-sector entities in other Asian countries with developed welfare states.

Consider elderly care insurance in Japan as one prominent example of social innovation. In the 1980s, when it appeared that the country's aging population would soon begin to cause major social issues, several pioneering Japanese nonprofits started offering progressive care management systems with various options for payment. These services, designed to fill the gap between available government services and societal needs on the ground, were unique because there was no commercial elderly care industry in Japan.

Until that time, elderly care had been seen as a family responsibility.

One of these nonprofits was Care Center Yawaragi, created in 1987 as a volunteer organization to provide care for the handicapped and elderly. But within a short time, Harue Ishikawa, Yawaragi's founder, realized that volunteerism by itself wouldn't adequately fill the service gap. And so, relying on gap analysis to inform his decision making, Yawaragi developed a standardized menu of care services and a care management system. The organization's efforts were widely acknowledged, and it was granted ISO9001 certification in 2001 (highly unusual for a nonprofit).

Importantly, Yawaragi also disseminated the concept of having a care management system that could cater to varying needs. In doing so, the organization essentially launched the era of modernized elderly care in Japan; Yawaragi soon began to receive many visitors, including government officials, seeking to learn how its paid elderly care model works.

Ultimately, the model that Yawaragi de-

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veloped was incorporated into Japan's national elderly care insurance system; it was adapted by the Japanese Ministry of Health in 2000. All Japanese above 40 years old are now required to pay an insurance premium equivalent to about 1.5 or 2 percent of their annual income. Subsequently, when a citizen needs care, she submits an application to the local government office; approval results in an allowance of between \$500 and \$2,000 a month to purchase services from any authorized provider.

With this insurance system, elderly care in Japan has transformed into an \$80 billion service industry, in which even major publicly held companies are now participating. What's more, the idea of elderly care insurance has also been replicated in other East Asian countries facing aging populations. South Korea introduced a similar type of insurance in 2008, and Taiwan is planning to follow suit in 2019.

Encouraged by the proven impact of the elderly care insurance and other examples, a new generation of Japanese social entrepreneurs has begun to prioritize larger societal impact. These forward-thinking individuals are scaling their unique business models for greater systemic change. Some are also actively lobbying the government to change certain forms of public social services.

One entrepreneur demonstrating the potential of social innovation in Japan is Toru Suzuki, executive director of the Hokkaido Green Fund (HGF), which he founded in 2001. Before that time, as a director of a consumer cooperative in Hokkaido, Suzuki was looking for effective ways to persuade the government to reduce the country's dependence on nuclear power. One day, he came up with the idea of encouraging a cooperative approach to producing electricity—using a model similar to a market contracting with organic farmers to produce vegetables and fruit.

To bring his idea to life, he sought investors to support the creation of a wind power plant and ultimately raised an initial \$2 million from 217 individuals. The electricity produced by the plant, which began operating in 2001, is sold to the local electricity company to generate revenues that will help to repay investors in 18 years. That seed of a renewable energy industry led to the creation of a model whereby the government started to set feed-in tariffs (policies guaranteeing payment for renewable energy, thus encouraging investment in the field) in 2012. As a result, by the end of 2016, HGF was operating 18 wind power plants in Japan.

Collective Impact Through Multisector Collaboration

The context that surrounds and compels social innovation in Japan is clearly different than in many other countries in South and Southeast Asia. Japan has a mature welfare society and enjoys economic prosperity, efficient government services, and an established market mechanism. Yet, the country today finds itself faced with unprecedented challenges, such as depopulation, due to low birthrates and insular immigration policies. In this environment, the social sector is looking to the potential of collective impact to create new social systems and provide needed supports. It is no longer enough to scale individual businesses to maximize direct impact and address needs.

To enable collective efforts, the Japanese social sector is focusing more explicitly on engaging in cross-sector collaboration with the government and with Japan's businesses. A project led by the Nippon Foundation since 2014, focused on the prevention of dementia, provides a good example. Roughly 26 percent of the Japanese population is over 65 years of age, and about 20 percent of the elderly are at a higher risk for dementia; treatment and care (formal and informal) can cost the country more than 14 trillion yen (\$116 billion) annually for both formal and informal care, representing a significant challenge.

To determine what actions were needed most and to set priorities for investing, the Nippon Foundation (Japan's largest private foundation) worked in collaboration with the Ministry of Economy, Trade and Industry (METI), as well as the Ministry of Health, to conduct a feasibility study. Keio University soon joined in the effort as an independent evaluator. (These collaborators are also engaging in efforts aimed to facilitate adoption, reduce unemployment among Japan's youth, improve and expand cancer-screening services, and prevent diabetes.)

Subsequently, in 2015 the METI funded 40 million yen (\$333,000) to support a pilot project aimed at preventing dementia. The program utilizes a Learning Therapy program, catered specifically to the elderly, developed by Kumon, which specializes in child and adult education. Participants in the pilot spend 30 minutes per day studying math and the Japanese language in an effort to prevent the progress of dementia.

After one year of this experiment, Keio University evaluators concluded that its outcomes were positive. The elderly participants in the project maintained their level of brain

function, while the control group showed clear signs of increasing dementia. A cost-benefit analysis subsequently demonstrated the strong potential of turning this project into a social impact bond (SIB) project. The analysis found that the pilot project cost approximately 98,000 yen (\$816) per person to operate but generated a benefit of approximately 300,000 yen (\$2,500) per person.

Emerging Social Impact Investment Market

Social innovation that leads to collective impact requires financing. The good news is that growing numbers of investors are showing interest in innovative social initiatives. Companies in the private sector in particular have stepped up in this area since the Great East Japan Earthquake in 2011, when it became clear that the public capacity for reconstruction was insufficient. Mitsubishi Corp., for example, set up an impact investment fund and put up \$15 million in short order to support entrepreneurs working in areas damaged by the earthquake and suffering in its aftermath. Other companies, including the Benesse Corp. and Toyota Tsusho, soon followed, establishing impact funds for overseas investments.

Other types of organizations are emerging in support of social innovation as well. Kibow, a spin-off impact investing fund from Globis, a Tokyo-based venture capital company, started operating in 2013. And in 2014, a group of private equity professionals founded Social Investment Partners, a social investment intermediary.

Intermediary organizations are also involved in the formation of this new market. The Japan Fundraising Association, established in 2009 with the slogan "A society with 100 billion-yen charitable donations," provides training for certified fundraisers, the first of its kind in Japan. Its goal is to achieve "100 billion yen donations," or eight times more than what is currently being raised, to support social innovation. And the Asian Venture Philanthropy Network, a philanthropy and social investment intermediary based in Singapore, was founded in 2012 to promote and facilitate social investment in Asian countries including Japan, South Korea, and China. To date, the network has more than 50 members active in these three countries, among 311 members in 28 countries.

Impact measurement, another vital aspect of investing in social innovation, is also gaining traction. The SROI Network Japan (an affiliate of Social Value International,

based in the United Kingdom) has been active since 2012 in providing training on best-practice social impact measurement methods. The Cabinet Office in Japan formed a research group in 2015 focused on improving and promoting impact measurement. The group, now called the Social Impact Measurement Platform, is supported by 50 organizations and corporations.

Becoming the “Land of the Rising Sun” Once Again

With its social capital accumulated since the Edo era, a collectively established civil society

since the 1970s, and a rapid economic growth model that has been replicated by other Asian countries, Japan has held a unique leading position in Asia for some time. However, with the recent rise of Koreans and Chinese, the country seems in some ways to be falling behind.

Can Japan revive itself to be the “Land of the Rising Sun” again? Can it provide new models for solutions to social and environmental issues on top of economic growth? This depends on how well Japan can open up to new approaches to resolving the complex social challenges it is facing. The good news is that the potential to do so is clear. ■

collecting subsidies, enabling them to lower their tuition. This represented an immediate 7 percent increase in the number of authorized nurseries in Japan, up from a total of about 24,000 nurseries. Over time, these small-scale nurseries (along with additional ones likely to be created in the future) are expected to make a significant contribution toward meeting the demand for nurseries.

A lot of the credit for this change goes to Florence, a Japanese social enterprise focused on childcare issues. It was Florence’s founder, Hiroki Komazaki, who pitched the idea of converting vacant apartment rooms into small-scale nurseries to the Ministry of Health, Labor, and Welfare (MHLW). (A typical small-scale nursery these days is often a converted vacant room in an apartment; these businesses provide day care for six to 19 babies under the age of 2.) Komazaki also forged partnerships with municipalities to develop and run model nurseries, and provided valuable input on designing an effective system for authorizing small-scale nurseries.

Florence’s Roots

A natural entrepreneur, Komazaki ran a successful IT venture during college in the early 2000s; however, before graduation, he came to realize that his goal in life was to effect social change. At about the same time, he learned that in the United States, many nonprofits endeavor to solve social issues by running profitable, socially oriented businesses. He was shocked by this trend, as it stood in stark contrast to the many Japanese nonprofits managed by volunteers rather than professionals. And that knowledge compelled him to leave the IT venture and start a social enterprise.

In search of an issue to focus on, he remembered something that his mother, who worked as a babysitter, had told him: Her client had been fired from her job for taking a week off when one of her twin babies caught a cold and passed it on to the other one. He conducted market research and found that working parents’ biggest difficulty was that nurseries do not accept children who have a fever over 99.5 F; he also found out that there were not nearly enough facilities providing care for sick children.

Seeing an opportunity to fill the market gap, Komazaki founded Florence in 2004 as a nonprofit focused on providing Japan’s first home-care service for ill children. (Komazaki was one of the first social entrepreneurs to be featured by the Japanese media when the concept of social entrepreneurship itself was

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Solving Japan’s Childcare Problem

Florence, a social enterprise, is helping cause major reforms in Japan’s childcare system.

BY FUMI SUGENO

Last year, in Japan, a strongly worded blog post written by an anonymous mother went viral. The post was titled “My child wasn’t accepted for nursery school. Die, Japan!!!” In it, the irate mother wrote, “I will now have to quit my job. Seriously, get your act together, Japan.” The author also attacked Prime Minister Shinzo Abe’s slogan about Japan being a “society in which all 100 million people can be active,” writing: “I can’t be active, can I? ... And what’s all that blabber about falling birthrates? When you say ‘You can have children’ but it’s going to be practically impossible to put them into nursery schools as you want, no one’s going to have children.”

The post was shared about 50,000 times and was mentioned in a parliamentary debate. But the prime minister’s initial response—“There is no way to verify the post since it is anonymous”—angered parents, who voiced their views on Twitter using the hashtag, “# it was me whose child was not accepted for nursery school.” Their reactions quickly evolved into a social movement, which included a

two-day protest outside the National Diet (Japan’s legislature), an online petition signed by 28,000 people, and rising public interest.

The parents’ ire was understandable. Until March 2015, the government authorized and subsidized only nurseries that had more than 20 children enrolled, and it was not easy to secure the space needed to accommodate such large groups, especially in large cities. Previously, unauthorized, unsubsidized nurseries with fewer than 20 children were compelled to collect higher fees from parents to cover operational costs, such as staff salaries.

Many young parents, who could not afford such fees, simply gave up on the idea of sending their children to day care. But their other options were limited as well. Japan suffers from a lack of affordable and reliable babysitters, due in part to the country’s tight immigration control. As a result, only 2 percent of Japanese working parents use babysitters, compared with 41 percent in the United States. Is it any wonder that many parents found themselves unable to work outside the home?

In 2012, Japan passed a law making it easier for small-scale nurseries to operate, and in 2015, the government began implementing the law. Overnight, 1,655 existing small-scale nurseries were able to get authorized and begin

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