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PFS Implementation In Japan

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Speaker Profile

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Ken Ito works for AVPN as a regional head for East Asia. He has a bachelor degree in economics and MBA in International Management from The American Graduate School of International Management (Thunderbird) in the United States. After spending ten years in the private sector, he joined the Institute for Strategic Leadership (ISL) and subsequently Social Venture Partners Tokyo to promote social innovation and entrepreneurship.

Ken is also the Executive Director of Social Value Japan (SVJ), a Japanese affiliate of Social Value International since 2012. Since 2014, he has been involved in research on PFS/SIB as well as in PFS/SIB pilot projects by ministries, municipalities, and foundations in Japan with his expertise in social impact evaluation. He leads the SIB Study Group under SVJ to facilitate knowledge exchange on this topic by bringing together professionals working on PFS/SIB in Japan, the US, and Asia.

THE avpn AGENDA

MOVING CAPITAL
TOWARDS IMPACT

- Increasing the flow of capital into the social sector
- Ensuring that resources are most effectively deployed

BUILDING THE SOCIAL IMPACT ECOSYSTEM IN ASIA

WHY IT MATTERS

BIG FINANCING GAP TO ADDRESS COMPLEX IMPACT ISSUES

USD 1.5 trillion required per year to meet the SDGs in Asia-Pacific by 2030

GROWING CONCENTRATION OF WEALTH

Asia set to have **> 1/3** of the world's **billionaires** by 2023

86% of **HNW Asian millennials** find more opportunities to tackle societal issues through investing

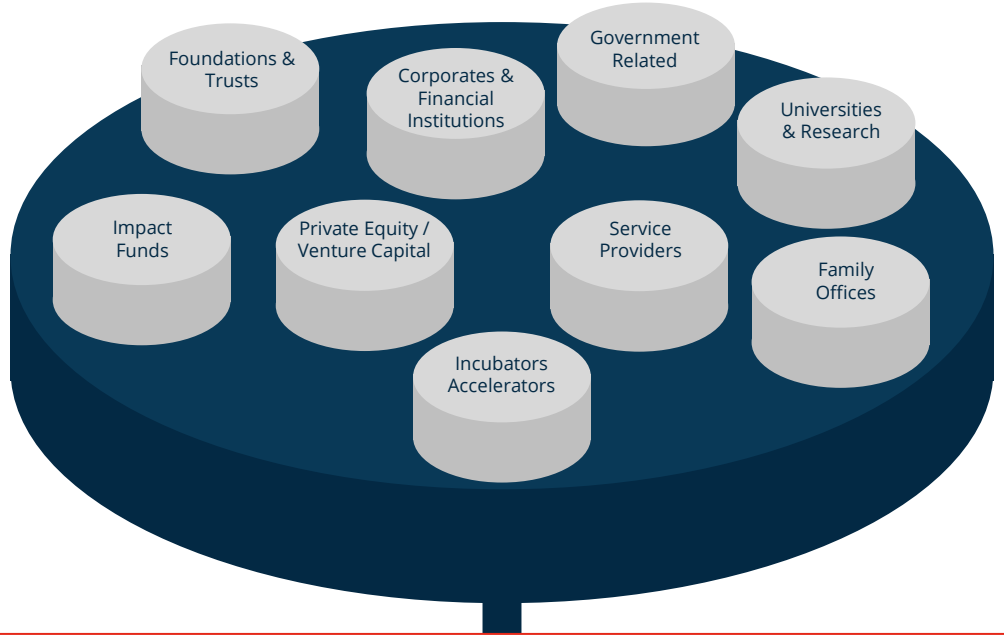
LACK OF ENABLING ENVIRONMENT

A need to

- Cultivate leaders
- Bolster funding channels, capacity building & impact management
- Alleviate funding wastes

IMPROVING THE EFFECTIVENESS OF MEMBERS ACROSS ASIA

BREAKING DOWN SILOS TO ENCOURAGE CROSS-SECTOR COLLABORATION



EMBRACING ALL FORMS OF SOCIAL INVESTMENT CAPITAL

GRANT, DEBT, EQUITY

HUMAN

INTELLECTUAL

MAXIMUM SOCIAL IMPACT

THE POWER OF THE AVPN NETWORK

MOVING CAPITAL TOWARDS IMPACT

AVPN REACH

990,488
WEBSITE VISITS ANNUALLY

69,000
BLOG READERS ANNUALLY

18,000
NEWSLETTER SUBSCRIBERS

AVPN DIVERSITY

600+
MEMBERS ACROSS THE WORLD

380+
LISTED INVESTABLE DEALS

12
MARKET REPS

18
POLICY FELLOWS

600+ MEMBERS AND GROWING

SERVICING THE FULL SPECTRUM OF SOCIAL INVESTORS

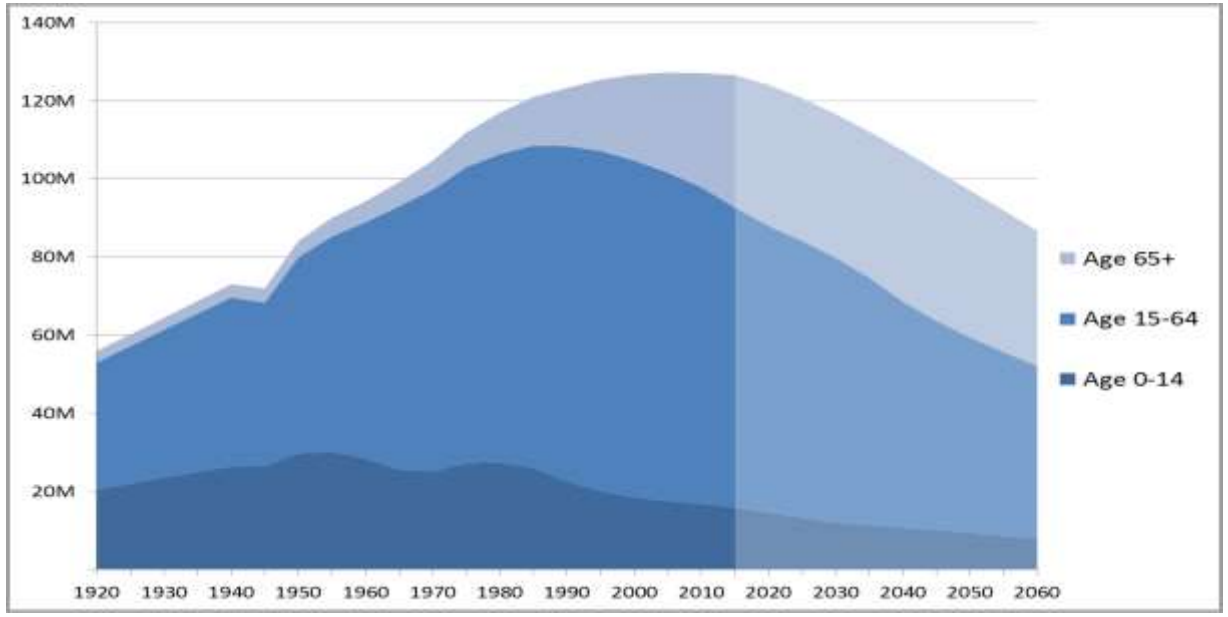
- FOUNDATIONS / FAMILY OFFICES
- CORPORATIONS / FINANCIAL INSTITUTIONS
- IMPACT FUNDS
- INTERMEDIARIES
- GOVERNMENT RELATED

PFS Implementation in Japan

Rationales for PFS/SIB Implementation in Japan

Demand for innovation and increased productivity in public services

Declining Japanese Population (1920-2060)



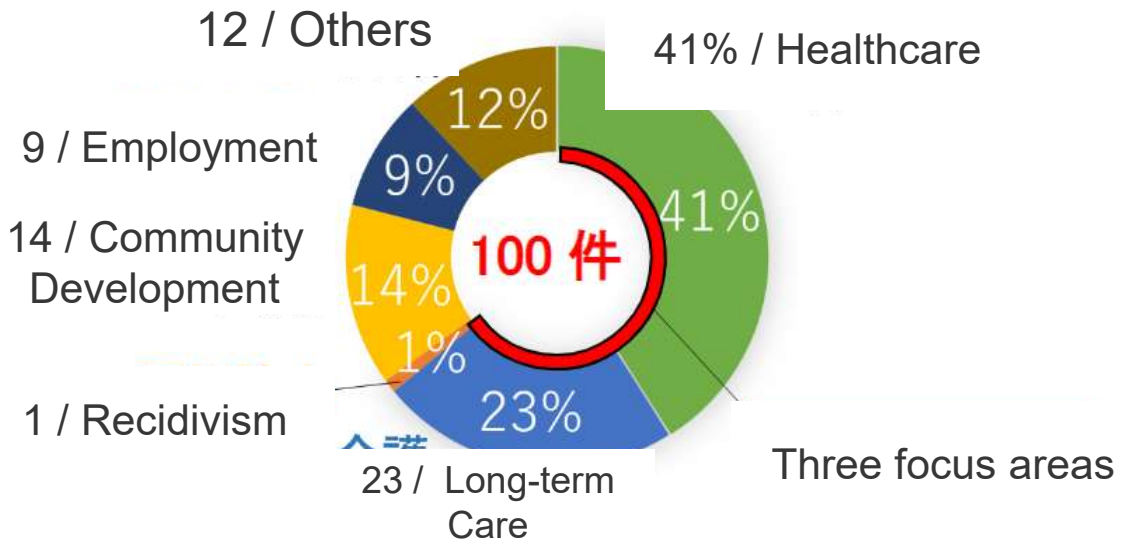
- Decline and aging population are impacting Japan for risk of sustainability which will be resulted in difficulties to sustain public services
- Productivity growth of public services through implementation of innovation and private-public partnership are deemed to be a potential solutions

Pay-for-Success in Japan

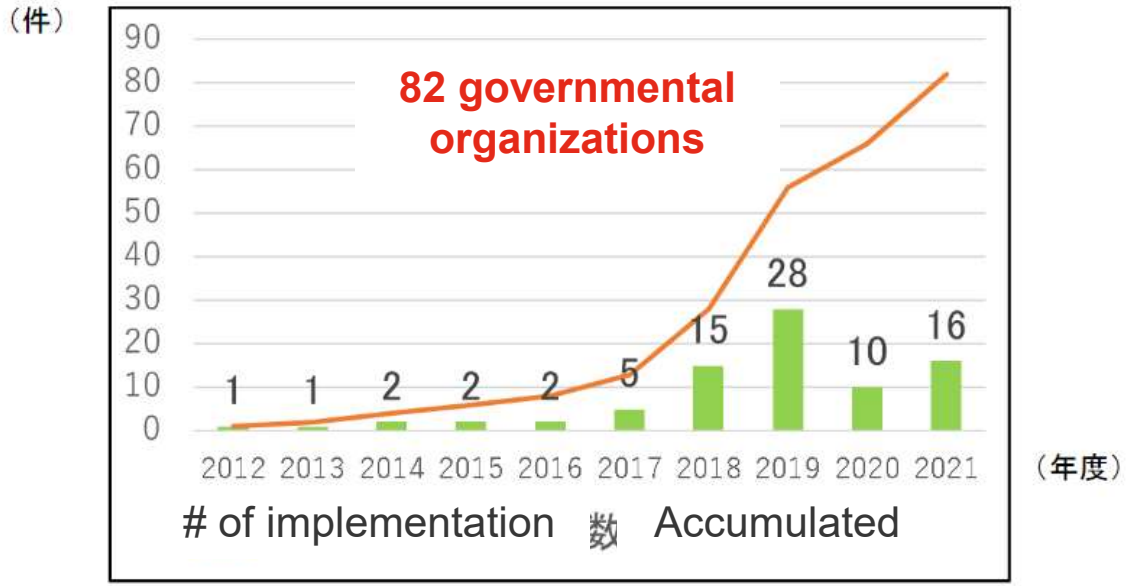
10 yeas of PFS/SIB development

The PFS/SIB, first introduced in Japan in 2017, has been implemented by a cumulative total of 82 organizations as of March 2022, showing a certain level of expansion. There was a slow down of the growth in year of 2020 due to COVID breakout, however, the interest from outcome funders are increasing. Number of project expected to reach 138 as of March 2023. Less than 20% of the project involves in external funding which can be classified as SIBs.

Distribution of Project Theme



Number of Government Units Implemented PFS/SIBs



Source: “PFS projects in Japan” (Cabinet Office, July 2022)

PFS/SIB in Japanese Government Policies

Strategic Position of PFS in the Country Strategy

Positioning of the PFS in the National Strategy

- In Japan, the promotion of PFS is included in different national policy papers in 2016, including "Basic Policies for Economic and Fiscal Management and Reform" (Cabinet Office) and the "Growth Strategy" (Cabinet Office), etc., of the Council on Economic and Fiscal Policy, which determined as national-level strategies.
- Based on these policy direction, in 2019, the Cabinet Office established the Office of PFS Promotion to promote outcome-linked projects across ministries and agencies.

PFS Action Plan and promotion of PFS in three priority areas (medical/health, long-term care, and recidivism prevention)

- In 2020, the PFS Action Plan was formulated and the target number of local government's PFS implementationset was set at 100 by the end of 2022 and the following measures will be implemented.
    - Development of PFS Common Guidelines and sector-specific guidance
    - Implementation of support projects, etc. to promote case building and horizontal development
    - Developing an evidence environment to support payment amounts and evaluations
    - Implementation of measures to promote PFS projects in existing institutional frameworks such as grants
    - Implementation of PFS assistance programs

PFS Policy Implementation by Ministries

In line with the definition in the national strategy, the following initiatives are being undertaken by various ministries and agencies.

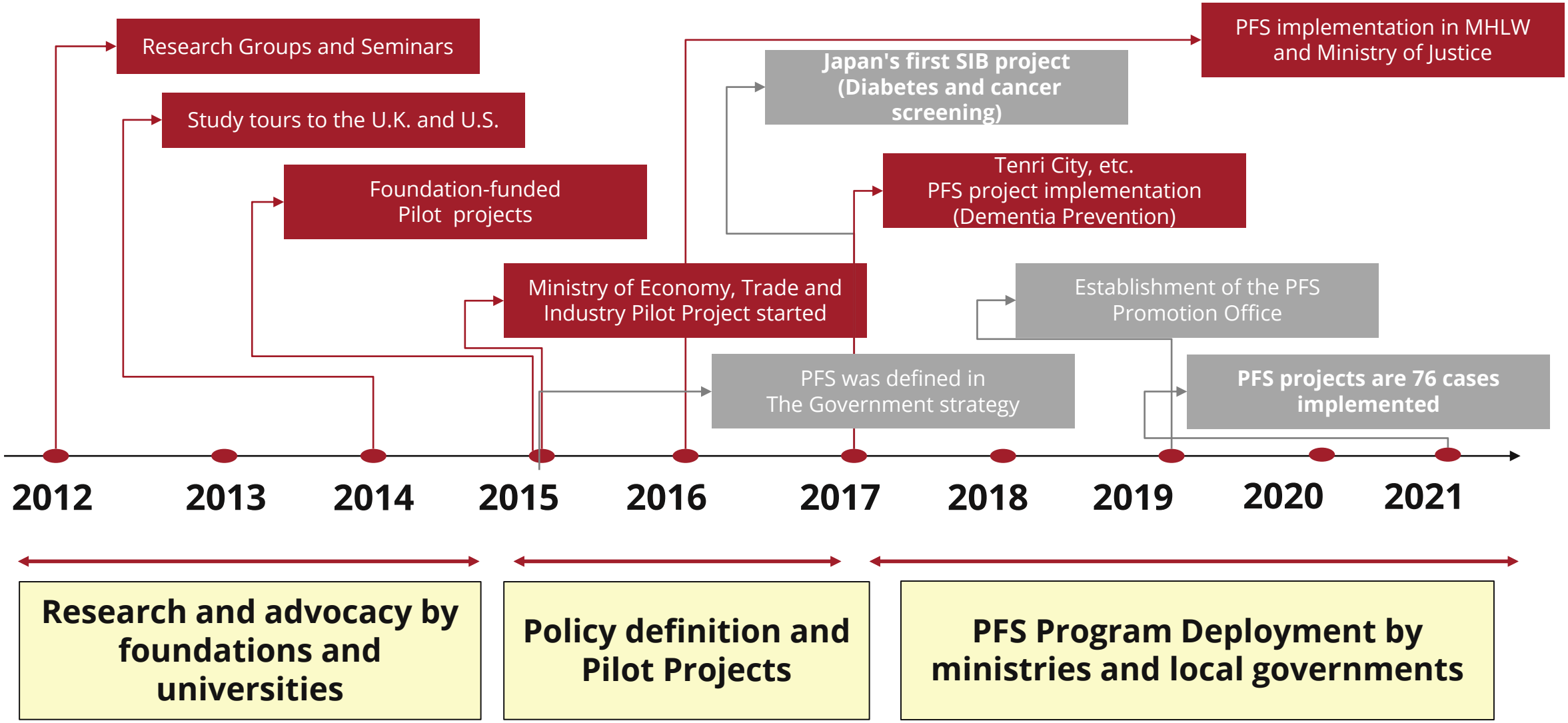
Ministry	Initiatives
Cabinet Office	Cross- ministiry Coordination on PFS policy, development of common guidelines for PFS, platform projects for municipalities, consulting support for project structuring, provision of grants to municipalities, surveys and research,
Ministry of Economy, Trade and Industries	Since 2015, PFS/SIB model projects have been implemented with a focus on the healthcare industry area resulting in the introduction of several projects to local governments, including nursing care prevention and cancer screening. METI and MHLW has developed shared guideline for PFS implementation in healthcare.
Ministry of Health, Labour and Welfare	From 2017 to 2019, MHLW commissioning of about 10 PFS pilot projects in healthcare and community based projects
Ministry of Justice	Conducted research projects in the area of recidivism prevention in 2019. PFS in recidivism prevention projects for juveniles started in 2021.
Ministry of Internal Affairs and Communications Telecommunications	Conducted a research project on data-enabled SIBs in 2019.
Ministry of Land, Infrastructure, Transport and Tourism	Conducted a research project on SIB in the area of urban development from FY2019, and start SIB project in the area of urban development in Maebashi, Gunma Prefecture from FY2021.

Expected Impact of PFS Implementation

Expectation for PFS/SIBs can be categorized into the following types, with expectations in different areas depending on the policy issues and institutional environment in which they are implemented

Expected Impact by PFS implementation	Challenges of conventional contracting	Expected Results by PFS/SIB implementation
Outcome-based management Of public service	The form of the contract is an outsourcing of the project implementation itself (output), and management of results does not necessarily function.	**Visualization of** agreed-upon **performance indicators** among stakeholders, such as government, business, and beneficiaries, **to realize management of results.**
Promotion of preventive measures	Especially for preventative projects where project results are achieved through medium- and long-term efforts, the budget for a single fiscal year is not sufficient to prioritize the projects.	**Prioritizing budget allocation and execution of effective preventive measures by** visualizing return on investment at the outcome level through commissioning of project results rather than commissioning of project implementation.
Implementation of innovative Service/products By private sector	Difficulty in incorporating innovative methods of the private sector in the specifications of projects that are outsourced by the government to the private sector	Outcome-linked contracts transfer government business risk to businesses and investors (in the case of SIBs) and **promote** the **introduction of innovative measures that take risks.**
Productivity Improvement In public service	In outsourcing contracts where the level of outcomes is not necessarily assessed, there is a risk that learning from the project will not be reflected in service improvements.	Visualization of results and linkage to payment will **enable** management of results and **improve productivity of administrative services** over the medium to long term.

Chronological Review of PFS/SIB development in Japan



Challenge of PFS/SIB implementation in Japan

Category	Challenge	Initiative
Scale of the PFS Projects	• Japanese PFS/SIB projects are small (average of $0.3MM) and short-term, • Smaller project has challenge to cover indirect cost, including formulation or evaluation	• Research on scaling-out strategy • Multi-municipalies projects • Ministry level projects
Data and Evaluation	• Barriers for utilization of data on the public service • Challenge for social consensus and data Infrastructure for public data sharing	• Promotion of EBPM • Evolution of evaluation methodologies
Budget Systems	• Single-year budgeting systems prevent local government to implement longer-term PFS projects	• Discussion for budget system reforms

PFS/SIB Study Group (2020-2021)

Social Value Japan, Social Investment and Innovation Foundation(SIIF), Development Bank of Japan(DBJ) has co-organized PFS/SIB Study Group, sponsored by SMBC. The study group was held during 2020-2021.

1. Objectives

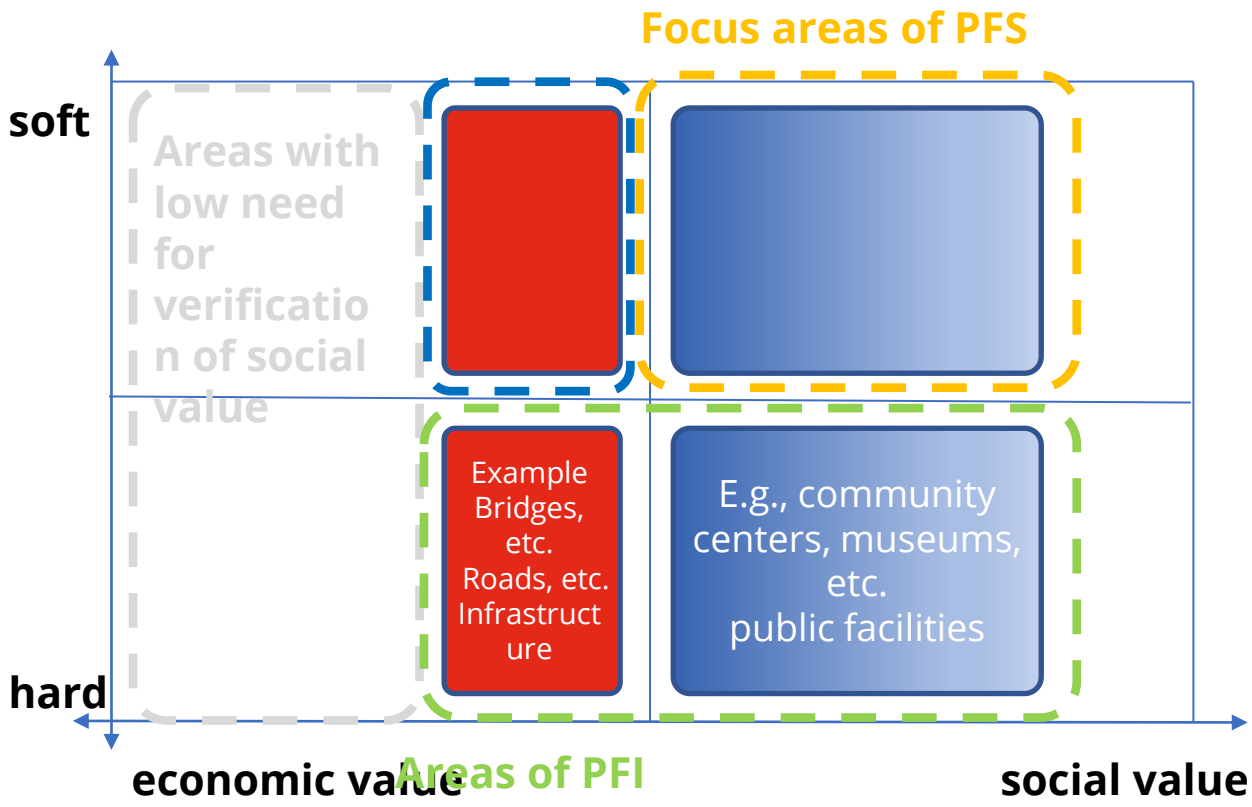
1. Awareness raising and networking among stakeholders involved in PFS/SIB
2. Discussing the challenges of promoting PFS/SIB in Japan and setting a direction for future initiatives
3. Identify actions to be taken at different levels over the coming year

2. Participating organizations

96 companies and organizations (including 5 ministries: Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Health, Labour and Welfare, Ministry of Justice, 13 local governments, 7 financial institutions, etc.) and more than 250 participants joined

Expected Area of PFS Implementation

As a target area for SIB/PFS, there is potential for the use of PFS/SIB in soft projects rather than hard projects such as infrastructure, as the non-economic value (social value) of the project is expected to be demonstrated in the results-linked contract model.



- PFS is a policy process in which the fee for commissioning a project is linked to the outcome of the project and the effectiveness of the intervention is verified in a short period of time, for a project that aims to realize not only economic value but also social value as its policy goal.
- In particular, there is room for the use of PFS/SIB in soft areas where the results of projects are demonstrated in terms of social value, which is difficult to measure in terms of economic value, and there are many areas where the setting of performance indicators and evaluation methods are still under development.

Case Study : Long-term Care Prevention PFS (1)

Learning therapy program by the Kumon Institute of Education

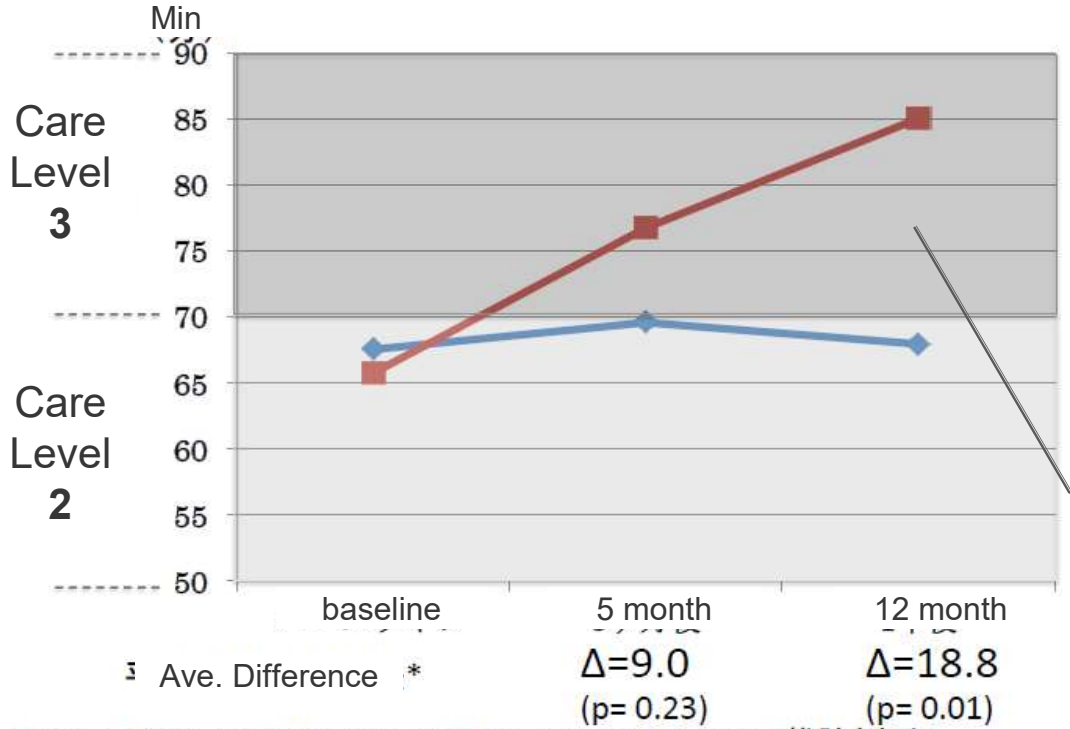
Kumon Institute of Education's "Learning Therapy" program for approximately 16,000 people at more than 300 facilities nationwide will be implemented as a results-linked contract from FY2015, and introduced in both Tenri City and Okawa City as a measure to prevent dementia and realize care prevention.

- Kumon Institute of Education, in collaboration with Tohoku University, has been working since 2001 to prevent dementia through a care prevention program based on "learning therapy.
- A printed learning program developed by Kumon, with 30 minutes of group study once a week and 30 minutes of self-study per day, has been proven to maintain and improve cognitive function
- Following the adoption by the Ministry of Economy, Trade and Industry (METI) in 2015 for the "Healthy Life Extension Industry Creation Project", the project will be implemented in Tenri City from 2017-18 and in Tenri City and Okawa City from 2019 as a 3-year project through debt sharing act.

Case Study : Long-term Care Prevention PFS (2)

Learning therapy program by the Kumon Institute of Education

The result of one year program:



* mixed-effects model for repeated measurement analysisで推計された between-group difference in least squares mean treatment change scores from baseline to data point

		5ヶ月後			1年後		
		平均変化量群間差(95%信頼区間)		p値	平均変化量群間差(95%信頼区間)		p値
Cognition	MMSE	1.7	(-0.1 to 3.6)	0.07	0.9	(-1.3 to 3.0)	0.42
	FAB	0.2	(-1.4 to 1.8)	0.80	0.5	(-1.5 to -2.5)	0.65
QoL	EQ5D	0.101	(0.021 to 0.181)	0.01*	0.094	(-0.018 to 0.206)	0.10
Daily Activities	IADL	0.6	(0.1 to 1.3)	0.05*	0.5	(-0.3 to 1.2)	0.21
	PSMS	0.1	(-0.3 to 0.6)	0.55	0.4	(-0.2 to 1.0)	0.23

Significant gap at the level of disabilities Between intervention and comparison groups

- In the dementia improvement program for those certified as requiring long-term care, the difference in time to care required showed a difference of about "1" in the degree of care required compared to the target group.
- Quality of life and independence scales tended to have lower p-values than MMSE and FAB, which assess cognitive function, and were more likely to show differences.

出典：船木 桂,佐渡充洋,二宮 朗,伊藤 健,落合千華,白波瀬丈一郎,三村 將(2017),「認知症に対する学習療法の効果研究」, 第32回日本老年精神医学会