

Summary of Research Project for Social Evaluation and Certification (FY 2021)

Japan Fundraising Association

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Objective and outline of the research

Based on findings and recommendations from the research projects for the last two years, "Research Project for Social Evaluation and Certification (FY 2019 and FY 2020)", this year's research aimed at

- Presenting a model of social evaluation and certification that can be utilized by small- and medium-sized social enterprises
- Organizing the elements and support measures necessary for the dissemination of the social evaluation and certification in a sustainable way.

In achieving these objectives, the project conducted research on the existing social evaluation and certification frameworks in Japan and abroad as well as on ecosystem development for dissemination and utilization of social evaluation and certification frameworks. The project then made a set of recommendations for Japan.

① Existing social evaluation and certification frameworks in Japan and abroad

The research looked into global trends surrounding social evaluation and certification frameworks such as the "SDG Impact" and the "B Corp Certification" as well as existing certification frameworks in Japan such as the "Local SDGs registration and certification". It examines the aims of frameworks, their targets, the management and operational system, and the incentive mechanisms.

Existing frameworks in Japan

[Local SDGs Registration and Certification]

- This policy was established with the aim of articulating the ways in which businesses are achieving the SDGs and utilizing them in order to realize an autonomous virtuous circle through local SDG finance, as presented by the "Study Group on SDG/ESG Finance for Regional Revitalization.
- "The Guidelines for Local SDGs Registration and Certification for Local Governments" were issued by the Cabinet Office in October 2020. Since then, 51 local governments have introduced and initiated the registration/certification as of February 28, 2022.
- Each local government has designed its own registration/certification framework, criteria, incentives for businesses, etc., based on its own objectives and goals while taking regional characteristics into account.

- Since many of the programs have only been in existence for a short time, each municipality is still experimenting with its respective operation and support for enterprises. However, the research was able to identify that many municipalities are providing support for enterprises through the platforms and efforts to support collaboration among them.

[Social Enterprise Certification Program in Kyoto/Shiga]

- The program began operating in April 2021 with collaborative efforts with local credit unions in Kyoto and Shiga prefectures and Ryukoku University. As of March 2022, no concrete incentives have been introduced for certified enterprises.
- It plans to introduce a program structure that allows enterprises to be ranked higher according to the results of their efforts using a social impact visualization tool.

① Existing social evaluation and certification frameworks in Japan and abroad

Existing frameworks abroad

【 B Corp Certification 】

- Since late 2020, B Lab has been working on a major revision of the BIA (B Impact Assessment) and the scoring system in light of pressing global issues, particularly climate change and economic inequality.
- From the perspectives of language and the cultural and social backgrounds which are different from country to country, how to spread the B Corp certification framework in Asia still remains as a challenge.

【SDG Impact Standards Assurance】

- Developed by United Nations Development Programme (UNDP) with the goal of integrating sustainability and the SDGs at the core of business and investment decision-making, the standard for enterprises was issued in July 2021. It embodies a hybrid model of integrating impact management into company's business operation and corporate management.
- The assurance framework of the SDG impact standard is currently under development and will be piloted globally in 2022.

② An ecosystem that enables dissemination and utilization of social evaluation and certification

In order to build an ecosystem for dissemination and utilization of social evaluation and certification, it is essential to consider the following three points: design, quality, and incentives.

Design

Only after the purpose of the evaluation and certification is established, can the elements of the ecosystem, roles of stakeholders, and other facts be determined. The research recognized that it is important to (1) take a back-casting approach and share the objectives of the certification from the ideal vision of society, (2) clarify the priority issues to be addressed, and (3) draw up and position the evaluation and certification design as part of the overall concept of society.

Quality

The evaluation and certification should have an established quality assurance mechanism with consistency. Based on the "Credibility Principles" by ISEAL, the research clarified the certification should be organized to ensure transparency and fairness. In addition, the certification process should be considered a chain of events rather than a series of independent points, and the roles of stakeholders and engagement with enterprises need to be specified. The governance system and flexibility of the certification are also important aspects of consideration.

Incentives

After clarifying the roles of stakeholders with the certification's aim of social change, it is necessary to design incentives for each stakeholder to behave as expected. The research pointed out the factors and leverage points that generate behavioral changes of each stakeholder in the existing system with and without certification, and suggested the important points regarding the roles and incentives of each stakeholder.

Proposed Model for Social Evaluation and Certification

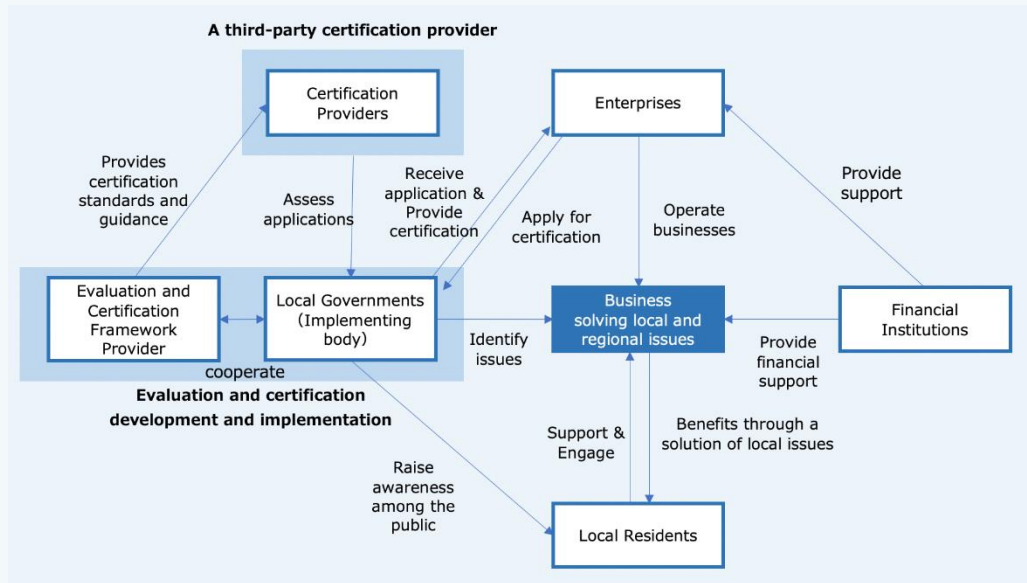
The research proposes a social evaluation and certification model organized from the three perspectives of "design," "quality," and "incentives."

Design

The social evaluation and certification model proposed in this research is an ecosystem model that will lead to solving local issues and challenges and contribute to building a better and healthier society.

- The certification should help enable local SMEs to create an impact in solving complex and diverse local and social issues.
- The certification should generate a new flow of capital from the private sector to contribute to solving local and regional issues.

The role of the evaluation and certification is to verify the continuous implementation of impact management to both business operations and organizational management of local enterprises. The roles of the key stakeholders involved are illustrated in the figure on the right.



Quality

To ensure the fairness and credibility of the certification process, certification needs to be bestowed by a third-party "certification provider". The body that develops the evaluation and certification framework will need to provide clear criteria and guidance for certification, as well as self-assessment tools and capacity-building training for local enterprises. In consideration of local and regional characteristics, it is recommended that the "certification providers" and supporting entity of the certification (group or individuals) are locally-based.

Incentives

Incentives should be designed to encourage the investment of public funds and financing for businesses that contribute to solving local and regional issues where local enterprises cooperate with local governments and financial institutions, rather than a simple scheme that provides additional points in local public procurement, for example. In order to promote these efforts, understanding and support from local residents and business partners will also be important, and incentives have to be designed to generate behavioral change in local residents.

Findings and Recommendations

【Social Evaluation and Certification Framework】

As a framework for the social evaluation and certification model, the research recommends that the "SDG Impact Standards" developed by the UNDP be used. Although the assurance framework is currently still under development, the reasons for this recommendation are as follows:

- It is a framework to evaluate and certify the impact management of both business operations and organizational management and is consistent with the hybrid model that has been suggested by this research for the last two years of study.
- Since it is being developed by a UN institution, it is expected to be utilized widely by public institutions and quasi-public entities in each country.
- The SDG Impact Standards can be used by financial institutions as a means to demarcate businesses and organizations that create social and environmental impacts.

【The Japanese Context】

In Japan, the "Local SDGs registration and certification" implemented by local governments has been spreading and it plays a role as a catalyst for disseminating ideas and practice of SDGs. As a result, it has produced some changes in behavior among businesses, such as the creation of businesses that contribute to solving local and regional issues.

- In many cases, the main objective of the measure is to raise awareness of the SDGs in the local contexts. Therefore, standards for registration and certification are set low as they put emphasis on the intention for future initiatives and goals instead of current efforts.
- The "Local SDGs registration and certification" can be used as an entry point for businesses to take action, and enterprises that aim to implement impact management in both their business operations and organizational management can be certified through the "SDG Impact Standards" certification.
- When introducing the "SDG Impact Standards" assurance, it would be advisable to promote a new capital flow for social businesses by creating and disseminating a "regional issue map" that indicates specific local issues with priority capital needs.

【Entry point of SDGs】

Local SDGs
registration and
certification



【Deepening efforts to achieve SDGs】

Social evaluation and
certification applying
"SDG Impact
Standards"

Discussion for the future

This research presented the possibility to introduce the "SDG Impact Standards" assurance as a framework for a social evaluation and certification model with the aim of creating a new capital flow for businesses and making an impact on complex and diverse regional and social issues. As a next step, the research suggests piloting this particular certification models at the local government level so that it can identify implementation issues, consider the roles of key stakeholders, and design support measures.