

**Tentative**

**Basic Policy on Utilization of Funds Related to Grants Funded  
by Dormant Deposits**

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## **Introduction**

There have been rapid changes in socioeconomic conditions, such as population decline and aging, in Japan, and Japan is facing various social problems, such as impacts on the quality and level of the lives of the citizenry.

These social problems include problems that are difficult for the national and local governments to deal with on the grounds of being less likely to be suitable for administrative execution in terms of the legal system, budget, and other mechanisms or being difficult to sufficiently deal with by existing measures. It is desirable to promote support for coping with these problems under the system wherein private organizations play a central role in solving problems by understanding needs agilely and flexibly according to the actual on-site conditions. However, most of such private organizations are facing lack of funds for launch, continuation, and development, and have not been doing enough for sufficiently coping with the problems.

Therefore, the Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector (Act No. 101 of 2016; hereinafter referred to as the "Act") was enacted in December 2016, and it classifies deposits for which there have been no financial activities for 10 years as dormant deposits and provides that such dormant deposits are to be utilized to promote activities contributing to public interest carried out by private organizations ((i) activities relating to the support for children and young people, (ii) activities relating to the support for people having difficulties in their daily and social lives, and (iii) activities relating to the support for areas facing social difficulties such as a decline in social vitality in local communities) with the aim of solving social problems that are difficult for the national and local governments to deal with (hereinafter referred to as "social problems") and whose successful outcomes will contribute to further increasing the interests of the general public (hereinafter referred to as "public interest activities by the private sector") after making the utmost efforts to pay back deposits to relevant depositors in light of the fact that the funds are raised from deposits.

This "Basic Policy on Utilization of Funds Related to Grants Funded by Dormant Deposits"<sup>1</sup> (hereinafter referred to as the "Basic Policy") is to be established under the provisions of Article 18, paragraph (1) of the Act.<sup>2</sup>

In line with the Basic Policy, the Prime Minister is to later establish the "Basic Plan for Promoting Smooth and Efficient Utilization of Funds Related to Grants Funded by Dormant Deposits"<sup>3</sup> (hereinafter referred to as the "Basic Plan") (Article 19 of the Act), and the Designated Utilization Organization (hereinafter referred to as the "DUO")

is to establish the "rules concerning the operations for promoting public interest activities by the private sector" (hereinafter referred to as the "rules for the operations for promoting public interest activities by the private sector") (Article 23 of the Act). In addition, the DUO is to perform the operations for promoting public interest activities by the private sector<sup>4</sup> in accordance with the Basic Policy, and Organizations Distributing Funds (hereinafter referred to as "ODFs") and Private Organizations Carrying out Public Interest Activities (hereinafter referred to as "POCPIAs") are also to conduct their projects in accordance with the Basic Policy (Article 22, paragraphs (1) and (2) of the Act). Therefore, the Basic Policy serves as the basis in the enforcement of the scheme (hereinafter referred to as the "Scheme") for the utilization of funds related to grants funded by dormant deposits (hereinafter referred to as "funds related to dormant deposits").

The Scheme is "a kind of unprecedented social experiment" that is unprecedented in Japan. At the initial stage of the Scheme, it is appropriate to place a priority on the creation of best practices that would lead to solution of social problems and then expand the scales of respective public interest activities by the private sector gradually in accordance with the achievements, taking into account that the DUO and ODFs have no other choice but to commence the Scheme through a trial and error process under the current situation where the overall public interest activities by the private sector are still under development, in an environment where POCPIAs and organizations and human resources that have the ability to support them are lacking.

Therefore, the DUO should conduct its projects with emphasis on the creation of best practices that would lead to solution of social problems and having them widely shared by and disseminated to related parties as a project model. In addition, funds related to dormant deposits will also be utilized positively for the development of infrastructure that supports the Scheme, including fostering players in public interest activities and players in supporting such activities, effective and efficient evaluation of outcomes by positive utilization of ICT, and mechanisms for information disclosure, from the perspective of promoting the mid-and-long term development of the autonomous and sustainable ecosystem for solving social problems.

The Scheme places emphasis on support for efforts targeting "social issues difficult to address with conventional and existing administrative methods," which are left uncovered between public systems and POCPIAs that are found highly innovative. Moreover, the subject of support is examined focusing on goals to be achieved, and introduction of various support methods, such as offering of non-financial support to POCPIAs in a hands-on manner as needed, is promoted.

In addition, the DUO preferably centralizes information, such as the progress of

projects at POCPIAs, outcomes, factor analysis of best practices and failure cases, and evaluation results, concretely analyzes it in a cross-sectional manner, and organizes it as structured knowledge after ensuring smooth execution of its fundamental operations that are concretely provided in the Act. The realization of a great change in society (social innovation<sup>5</sup>) is to be aimed at through promotion of the extensive and evolutionally development of effective methods by providing and disclosing such structured knowledge in an easy-to-understand and easy-to-use manner and developing an intellectual environment that enables POCPIAs to utilize such knowledge in various scenes, as well as reflecting it in the projects of the DUO and ODFs.

## **Chapter 1 Matters Concerning the Significance and Goals of the Utilization of Funds Related to Dormant Deposits**

### **1. Significance of utilizing funds related to dormant deposits in public interest activities by the private sector**

In Japan, dormant deposits, for which the depositor does not come forward, amounts to around 70 billion yen every year even after deducting the refunded amount (average for the period from fiscal 2014 to 2016).

Deposits have the following characteristics:

- (1) deposits serve as funds used by financial institutions to play public roles, specifically, settlement function, financial intermediary function, and credit creating function;
- (2) for protecting deposits, the deposit insurance system is established from the perspective of special public nature, i.e. maintenance of stability of the financial system, and deposits are accepted with it as a backdrop; and
- (3) deposits are utilized by the broad public.

Therefore, the Act provides that after making the utmost efforts to pay back dormant deposits to relevant depositors, the remaining amount is to be utilized for the purpose of promoting public interest activities by the private sector.

The utilization of funds related to dormant deposits for promoting public interest activities by the private sector is expected to produce benefits equivalent to those brought about by banks and other financial institutions through loans to expand private projects as well as benefits equivalent to those brought about by the administration to promote public welfare, thereby generating ripple effects broadly over the society as a whole.

### **2. Goals of the utilization of funds related to dormant deposits**

The following two are cited as outcomes, that is, goals, to be achieved through utilization of funds related to dormant deposits.

#### **(1) Solution of social problems through operations utilizing funds related to dormant deposits**

Public interest activities by the private sector for which funds related to dormant deposits can be utilized are required to fulfill the following three requirements:

- (i) being activities intended to promote solution of social problems;
- (ii) being activities contributing to public interest carried out by private organizations; and
- (iii) being activities whose successful outcomes will contribute to further increasing the interests<sup>6</sup> of the general public.

The provision of support by utilizing funds related to dormant deposits to operations that fulfill these requirements promotes public interest activities by the private sector and leads to the solution of social problems through achievement of the outcomes set in advance by the DUO, ODFs, and POCPIAs.

**(2) Development of an "autonomous and sustainable ecosystem for solving social problems"**

In the future, creation of best practices in public interest activities by the private sector and dissemination thereof as a project model through utilization of funds related to dormant deposits is expected to foster independent players in public interest activities by the private sector, such as POCPIAs and ODFs that support them. In addition, it is also expected that utilization of funds related to dormant deposits adds momentum to the inflow of private funds into public interest activities by the private sector as well as the fostering of highly-professional personnel related to public interest activities by the private sector outside the Scheme.

If, through these activities, the autonomous and sustainable ecosystem for solving social problems is developed and ODFs and POCPIAs become able to secure the sustainability of their projects by independently raising funds from the private sector and strengthen efforts for solving social problems, Japan's ability to solve social problems is expected to improve tremendously.



## **Chapter 2 Basic Matters Concerning the Utilization of Funds Related to Dormant Deposits**

### **1. Basic principles for the utilization of funds related to dormant deposits**

In light of the Basic Philosophy on Utilization of Funds Related to Grants Funded by Dormant Deposits provided in Article 16 of the Act, the basic principles for the utilization of funds related to dormant deposits are established as follows.

In addition, based on these basic principles, matters to be taken into account by the DUO, ODFs and POCPIAs that utilize funds related to dormant deposits in performing operations are indicated with respect to each of the basic principles.

#### **(1) Contribute to the interests of the general public**

The outcomes of utilization of funds related to dormant deposits are to be utilized in a manner such that they will contribute to increasing the interests of the general public, after making the utmost efforts to pay back deposits to relevant depositors, in light of the fact that the funds are raised from deposits.

The Scheme is to utilize deposits that have become dormant deposits even after making the utmost efforts to pay back them to relevant depositors for promoting public interest activities by the private sector in a manner that such deposits will contribute to further increasing the interests of the general public, in light of the fact that the funds are raised from deposits. When the DUO, ODFs and POCPIAs utilize funds related to dormant deposits, they need to gain the broad understanding of the public by positively transmitting information on the outcomes in light of such fact.

#### **(2) Mutual assistance**

Funds related to dormant deposits are not utilized as a replacement for measures to be originally taken by the administration (public assistance) but are utilized to provide support focusing on mutual assistance activities.

In light of the definition of public interest activities by the private sector in Article 16, paragraph (1) of the Act, the Act is not designed to utilize funds related to dormant deposits as a replacement for measures to be originally taken by the administration (public assistance). Funds related to dormant deposits are utilized for support focusing on mutual

assistance activities, mainly, in unprecedented efforts, efforts targeting "social issues difficult to address with conventional and existing administrative methods" between public systems, and fields for which actions are delayed because they are not generally recognized as social problems, with a focus on the problems faced by persons who have not been covered by existing systems.

Incidentally, due consideration is given to ensure that funds related to dormant deposits are also utilized in the fields that require time for solution and fields for which it has been considered that quantitative outcomes are hard to achieve, without placing a disproportionate emphasis on the fields that can be solved in a short time and the fields for which quantified outcomes are easily achieved.

### **(3) Sustainability**

Funds related to dormant deposits are utilized in a manner that they will contribute to the fostering of independent players in public interest activities by the private sector and the development of an environment to independently raise funds from the private sector, thereby developing an autonomous and sustainable ecosystem for solving social problems.

In order to foster independent players in public interest activities by the private sector, the DUO and ODFs provide support for a certain period of time set after agreeing with POCPIAs on the outcomes to be achieved and exits of support in advance, thereby developing a mechanism for avoiding creation of organizations that depend on funds related to dormant deposits. Incidentally, various exits of support are assumed, such as self-propelling<sup>7</sup> of project, realization of outcomes that a party that provides grants, loans or investments and a party that receives them have agreed in advance, and institutionalization as a public measure.

In order to make the outcomes of projects more assured and increase the independence of POCPIAs, ODFs provide such private organizations not only with financial support but also with non-financial support, such as management support for the implementation of projects, as needed in a hands-on manner by making themselves available to the supported organizations in collaboration with external organizations and experts, thereby promoting the capacity building of organizations.

From the perspective of securing private funds and human resources, ODFs and POCPIAs are required to ensure that private funds can be leveraged by funds related to dormant deposits as seed money by positively transmitting the social significance and outcomes of their own activities to the outside and promulgating the understanding

thereof. In particular, as various constraints in public interest activities by the private sector<sup>8</sup> and inadequate development of the social investment market are barriers to the inflow of private funds into provision of funds to public interest activities by the private sector, the DUO promotes the development of an environment necessary to enable players involved in public interest activities by the private sector to independently raise necessary funds, for example, by reducing risks through the utilization of funds related to dormant deposits.

The development of an autonomous and sustainable ecosystem for solving social problems is promoted through these efforts.

#### **(4) Transparency and accountability**

The DUO, ODFs, POCPIAs, and the government publicize outcomes and all the other kinds of information to the public in an easy-to-understand manner, thereby fulfilling accountability.

The Scheme is intended to solve social problems by utilizing funds related to dormant deposits and thereby return outcomes to the general public. Therefore, upon utilizing funds related to dormant deposits, the DUO, ODFs, and POCPIAs not only publicize after-the-fact reports but also thoroughly disclose information, including publicizing all kinds of information to the public in an easy-to-understand manner to a maximum extent through visualization of the progress and outcomes of projects, and make efforts to secure the transparency of the Scheme as a whole. In addition, such organizations take various opportunities, such as dialogues with related parties, to hear opinions from the general public.

#### **(5) Fairness**

The utilization of funds related to dormant deposits is fairly conducted through thorough prevention of conflicts of interest.

Necessary measures are taken to prevent and detect early conflicts of interest and misconduct at all the stages of utilization of funds related to dormant deposits so that funds related to dormant deposits are fairly utilized. In addition, all persons involved in the utilization of funds related to dormant deposits are required to take action in a manner that the public does not raise suspicions about fairness.

If any misconduct occurs, the causes of such misconduct are investigated, strict disposition is imposed on those who caused the misconduct, and effective preventive

measures are taken. In addition, the causes of the misconduct and the progress of measures are also publicized.

**(6) Diversity**

Due consideration is given to the point that social problems that should be preferentially solved and measures for solving them are varied depending on the region, field.

Upon selecting POCPIAs, the DUO and ODFs give due consideration to the point that social problems that should be preferentially solved and measures for solving them are varied depending on the region, field.

**(7) Innovation**

Social innovation is realized by utilizing funds related to dormant deposits for efforts targeting "social issues difficult to address with conventional and existing administrative methods" and unprecedented efforts in a flexible, effective, and efficient manner by means of diversified methods and promoting more extensive and evolutionary development of the outcomes.

The Scheme places emphasis on support for efforts targeting "social issues difficult to address with conventional and existing administrative methods," which are left uncovered between public systems and POCPIAs that are found highly innovative.

Upon utilizing funds related to dormant deposits, the DUO plays a role as an incubator (an entity that provides necessary management support until projects get on track) and an accelerator (an entity that provides necessary support to accelerate project growth) that supports players who try to solve social problems with ODFs, thereby promoting creation of a significant change in society (social innovation) and development, dissemination, and implementation of innovative means.

**(8) Impact Maximization**

The maximization of outcomes in terms of the Scheme as a whole is aimed at by positively supporting projects that are expected to achieve significant outcomes for solving social problems while accepting certain risks.

In order to achieve significant outcomes for solving social problems, it is important for the DUO and ODFs to properly manage not only financial risks but also risks peculiar to public interest activities by the private sector, such as the risk of expected

social outcomes not being achieved.

On that basis, the DUO aims at maximizing outcomes in terms of the Scheme as a whole by conducting projects that are expected to achieve steady outcomes for solving social problems and innovative projects that have a low probability of achieving goals (high risk) but will bring about a significant social change to society (social innovation) if realized at the appropriate rate.

### **(9) Private initiative**

Upon enforcing the scheme, the DUO plays a central role, and the private sector takes initiative based on collaboration among related entities. In addition, interference by the administration is avoided, and respect is given to the ideas of the private sector.

In light of the purpose provided in Article 16, paragraph (5) of the Act to the effect that due consideration is to be given to encouraging private organizations to fully exert their creativity and ingenuity, the administration is required to show respect to the ideas of the private sector while avoiding excessive interference so that private organizations can make efforts to solve social problems agilely and flexibly according to the actual on-site conditions.

In doing so, in order to create greater social outcomes, the DUO and ODFs play a central role in promoting efforts for a collective impact<sup>9</sup> wherein related parties in various positions work on projects in collaboration with each other beyond barriers between fields after sharing goals and outcomes.

## **2. Roles of respective entities**

### **(1) Roles to be played by the DUO**

The DUO is a general incorporated foundation whose purpose is to contribute to promoting public interest activities by the private sector and which is the only one organization designated by the Prime Minister (Cabinet Office that is the competent government office) in Japan as one which is found to satisfy the standards for the designation set forth in Article 20, paragraph (1), items (i) to (vi) of the Act in relation to the operations for promoting public interest activities by the private sector.

The DUO receives grants funded by dormant deposits from the Deposit Insurance Corporation of Japan and performs the operations for promoting public interest activities by the private sector, and also supervises ODFs to which it has provided grants or loans (Article 21 and Article 22, paragraph (3) of the Act). On the other hand, the DUO is subject to supervision by the Prime Minister<sup>10</sup> and is also subject to the monitoring of

the implementation status of the operations for promoting public interest activities by the private sector by the Council for Utilization of Dormant Deposits (hereinafter referred to as the "Council") (Article 35, paragraph (2), item (vi) of the Act).

In this manner, the DUO is the entity that conducts project related to the utilization of funds related to dormant deposits and assumes primary responsibility for the supervision of POCPIAs through supervision of ODFs.

On that basis, in order to realize the Basic Philosophy on Utilization of Funds Related to Grants Funded by Dormant Deposits provided in Article 16 of the Act, the DUO is not only expected to fulfill the roles provided for in the Act, such as the distribution and management of funds related to dormant deposits, but also needs to facilitate the development of an autonomous and sustainable ecosystem for solving social problems, by making positive efforts for the creation and sharing of best practices in public interest activities by the private sector and developing and expanding them.

On these bases, concrete roles to be played by the DUO are as follows:

- (i) analyzing social problems in Japan and presenting problems that should be preferentially solved;
- (ii) providing ODFs and POCPIAs with the most suitable financial support;
- (iii) playing a role as an incubator and an accelerator that support players who try to solve social problems in Japan;
- (iv) offering non-financial support to ODFs as needed in a hands-on manner in collaboration with external organizations and experts;
- (v) promoting the development of innovative means for solving social problems and disseminating such means by providing support that encourages private organizations to fully exert their creativity and ingenuity;
- (vi) supervising ODFs and POCPIAs so that projects related to public interest activities by the private sector are conducted properly;
- (vii) making efforts to gain public understanding of the Scheme through positive disclosure, publicity, and publication of the utilization status and outcomes of funds related to dormant deposits and also promoting further participation of diversified private organizations;
- (viii) ascertaining the status of public interest activities by the private sector as a whole through analysis of the status of activities of ODFs;
- (ix) analyzing accumulated best practices and failure cases concretely in a cross-sectional manner in light of the actual conditions in each region, field and reflecting the analysis results on the actual sites of activities; and
- (x) carrying forward the development of an environment necessary for players in public

interest activities by the private sector to independently raise necessary funds, thereby promoting the development of the market.

## **(2) Roles expected to be played by ODFs**

ODFs are organizations that provide POCPIAs with grants, loans or investments, and receive grants or loans funded by funds related to dormant deposits from the DUO in relation to the funds necessary to provide said grants, loans or investments. ODFs are selected by way of public offering (Article 19, paragraph (2), item (iii)b and Article 22, paragraph (5) of the Act).

ODFs are expected to fulfill roles that are not limited to those provided for in the Act, that is, provision of financial support to POCPIAs, but that also include playing a central role in fostering independent players in public interest activities by the private sector through provision of grants, loans or investments by innovative means and offering of non-financial support, such as management support<sup>11</sup> and personnel support related to implementation of projects, in a hands-on manner as needed.

In addition, there are a variety of social problems with respect to each region and field, and POCPIAs adopt a wide variety of means for solving social problems. Therefore, upon utilizing funds related to dormant deposits, it is expected that necessary support is properly provided to POCPIAs by utilizing ODFs that are acquainted with the actual conditions of the field and region facing a specific social problem.

Based on the above, ODFs are expected to play the following roles:

- (i) ascertaining and analyzing the actual conditions and problems with respect to each region, field in a panoramic and concrete manner in light of problems that should be preferentially solved which were presented by the DUO, and identify issues to be addressed and organize projects proactively;
- (ii) designing and formulating "comprehensive support programs" (the details are indicated later in Chapter 3, 1.(1)(i)b)) toward effective and efficient solution of social problems, selecting POCPIAs based thereon by way of public offering, and providing financial support and non-financial support in a hands-on manner as needed;
- (iii) promoting the fostering of independent players in public interest activities by the private sector through provision of grants, loans or investments for funds by innovative means in light of the property and development stage of project of POCPIAs;
- (iv) conducting necessary and proper supervision of POCPIAs so that public interest activities by the private sector are properly and reliably carried out;

- (v) developing and implementing innovative means for solving social problems by providing support in a manner of encouraging private organizations to fully exert their creativity and ingenuity;
- (vi) conducting continuous monitoring, including on-site surveys, of the operational progress of POCPIAs and checking and verifying the evaluation of their outcomes, thereby encouraging the effective utilization of evaluation results; and
- (vii) formulating and implementing concrete measures for attracting the private funds of private companies and financial institutions to public interest activities by the private sector.

### **(3) Roles expected to be played by POCPIAs**

POCPIAs<sup>12</sup> are those carrying out public interest activities by the private sector provided in Article 16, paragraph (1) of the Act, and they receive grants, loans or investments, which are funded by funds related dormant deposits, from ODFs in relation to funds necessary to carry out their activities. POCPIAs are selected by way of public offering (Article 19, paragraph (2), item (iii) and Article 22, paragraph (5) of the Act).

In addition, as many social problems are brought up on site, POCPIAs are expected not only to solve social problems through their operations but also to make those problems visible and feed actual needs back to the DUO and ODFs with the aim of improving the content of the Scheme.

On these bases, POCPIAs are expected to play the following roles:

- (i) "cross-functioning (to promote mutual communication among different organizations)" the vertically structured administration, or, extracting and making visible concrete "social issues difficult to address with conventional and existing administrative methods";
- (ii) effectively and efficiently utilizing funds related to dormant deposits with focus on outcomes, thereby promoting efforts for solving social problems;
- (iii) developing and putting in practice innovative means for solving more complicated and highly developed social problems by fully exerting the creativity and ingenuity of the private sector;
- (iv) conducting evaluation of the outcomes of their own public interest activities by the private sector and effectively utilizing evaluation results in the management of private interest activities by the private sector, including review of public interest activities by the private sector and reflection on allocation of resources, such as human resources; and
- (v) feeding actual needs, suggestions, project outcomes back to the DUO and ODFs,



thereby further improving the content of the Scheme.

#### **(4) Roles of the administration**

##### **(i) National government**

The basic idea is to minimize the involvement by the national government in the utilization of funds related to dormant deposits so that the creativity and ingenuity of private organizations are fully exerted.

From that perspective, the Prime Minister conducts the formulation of the Basic Policy and the Basic Plan and the designation and supervision<sup>13</sup> of the DUO (Article 18, paragraph (1), Article 19, paragraph (1), and Article 20, paragraph (1), etc. of the Act).

##### **(ii) Council for Utilization of Dormant Deposits**

The Council presents opinions in advance when the Prime Minister formulates the Basic Policy and the Basic Plan and grants approval for the project plan and income and expenditure budget of the DUO and also surveys and deliberates these matters and significant matters concerning the utilization of funds related to dormant deposits and presents opinions to the Prime Minister when the Council finds it necessary (Article 35, paragraph (2), items (i) to (v) of the Act).

In addition, the Council monitors the implementation status of the operations for promoting public interest activities by the private sector performed by the DUO and makes recommendations to the Prime Minister when the Council finds it necessary (Article 35, paragraph (2), item (vi) of the Act).

##### **(iii) Local governments**

Local governments are not directly involved in the utilization of funds related to dormant deposits but are expected to play a role as coordinators that connect POCPIAs and diversified related parties.<sup>14</sup> In addition, local governments preferably collaborate and work with POCPIAs by such means as providing opportunities for POCPIAs and other related organizations gather toward solving social problems so that POCPIAs can understand social problems and smoothly carry out public interest activities by the private sector.<sup>15</sup> In doing so, it is important to give every respect to the ideas of the private sector.

## **Chapter 3 Matters Concerning the Operations for Promoting Public Interest Activities by the Private Sector Necessary for Achieving the Goals of the Utilization of Funds Related to Dormant Deposits**

### **1. Operations of the DUO**

The operations which the DUO performs under the provisions of Article 21, paragraph (1) of the Act (operations for promoting public interest activities by the private sector) are operations provided in items (i) to (v) of said paragraph and operations incidental thereto (item (vi) of said paragraph). Those operations are indicated below by dividing them into the operations that are concretely provided in the Act as the operations of the DUO in light of the roles thereof indicated in Chapter 2, 2.(1) (hereinafter referred to as the "fundamental operations") and the operations that are not clearly specified in the Act but which are expected to be performed by the DUO for the proper implementation of the operations for promoting public interest activities by the private sector at the DUO in light of the Basic Philosophy on Utilization of Funds Related to Grants Funded by Dormant Deposits provided in Article 16 of the Act (hereinafter referred to as the "additional operations expected for operational improvements").

#### **(1) Fundamental operations**

##### **(i) Selection of ODFs**

###### **a) Ascertaining, analyzing, and determining "social problems that should be preferentially solved"**

There are a wide variety of social problems, including those that are not socially recognized, and social problems are becoming increasingly complex. Therefore, the DUO is required to determine "social problems that should be preferentially solved" after ascertaining and analyzing social problems in Japan in order to fairly and efficiently utilize limited funds related to dormant deposits. In doing so, the DUO must also give due consideration to on-site opinions and needs under the mutually independent relationship with ODFs and POCPIAs.

In addition, the DUO must determine the overall policy toward solving social problems that should be preferentially solved, including setting of proper goals for outcomes, and clearly indicate it in its project plan that it prepares for each project year.

###### **b) Selection of ODFs**

The DUO establishes the rules for the operations for promoting public interest

activities by the private sector that provides for the standards for the selection of ODFs and other matters in line with the Basic Policy, and determines ODFs under the Act by way of public offering (Article 22, paragraph (5) and Article 23, paragraphs (1) and (2) of the Act).

Upon selecting ODFs, the DUO must first confirm that organizations that apply for the public offering of ODFs (hereinafter referred to as "organizations applying for selection") have organizational structures that are sufficient to fairly and properly perform operations.<sup>16</sup>

On that basis, the DUO must examine the content of comprehensive support programs (wherein financial support and non-financial support, including management support for the implementation of projects (provided in a hands-on manner as needed) are combined with each other, and the subject and method of support are organized) submitted by organizations applying for selection as indicated in A) to C) below.

Incidentally, methods of providing non-financial support are not fixed in advance, and it is desirable that necessary non-financial support is provided in an optimized form according to the requests and status of POCPIAs.

A) Subject of examination and standards in selection

Upon selecting ODFs, the DUO must establish necessary standards for the following matters and examine comprehensive support programs based thereon.

- A comprehensive support program provides that upon selecting POCPIAs, the ODF confirms that it requests that POCPIAs clearly specify outcomes to be achieved, exits of support provided by the ODF, and the period of support in a plan relating to public interest activities by the private sector prepared by the POCPIA.
- A comprehensive support program incorporates a mechanism for preventing creation of organizations that depend on funds related to dormant deposits (for example, support methods according to the development stage of project activities in anticipation of the exits of support,<sup>17</sup> funding methods according to project evaluation, means for improving sustainability as a project, and provision of support on the condition of receiving provision of funds from private funder according to the property of project).
- A comprehensive support program provides that non-financial support is provided to POCPIAs in a hands-on manner as needed.
- The ODF has the sufficient ability to properly implement a comprehensive

support program<sup>18</sup> (however, where the ODF cannot independently provide non-financial support, it may prepare and submit a comprehensive support program in collaboration with an organization that can provide non-financial support).

In addition, it is desirable that the DUO preferentially selects organizations applying for selection, which are to positively collect information on public interest activities by the private sector and conduct surveys and studies to identify issues to be addressed and organize projects of public interest activities by the private sector that can be covered by grants, loans or investments, as ODFs.

#### B) Examination method

The DUO must conduct examination for selecting ODFs by a method indicated below.

- Making efforts to secure transparency and objectivity in examination by publicizing the standards for selection and perspectives for evaluation in advance
- Upon conducting examination, determining ODFs at a decision-making body, such as the board of directors, while adopting expert knowledge through hearing of opinions from third parties, and making clear the location of the responsibility
- Securing fairness in examination in relation to those who engage in examination for the selection of ODFs, for example, by taking measures to prevent conflicts of interest, such as exclusion of a person who has an interest in an organization applying for selection from conducting examination on the organization applying for selection.
- Fulfilling accountability for the public and securing transparency, for example, by disclosing selection results and reasons for selection; however, taking care not to impair the rights and other legitimate interests of organizations applying for selection, for example, by ensuring that parts relating to the ideas and know-how of organizations applying for selection are not disclosed
- Giving due consideration to organizations applying for selection that were not selected as a result of examination so as to lead to the fostering of potential players in public interest activities by the private sector, for example, by indicating the points to be improved to the possible extent, as

well as disclosing reasons therefor

C) Matters to take note in selection

Upon selecting ODFs, the DUO must take note of the following matters.

- Selecting ODFs from the perspective of maximizing social outcomes
- Giving consideration to ensure that ODFs are not disproportionately located in large cities or other specific areas from the perspective of making it possible to deal with the diversity of social problems and means for solving them, and making due consideration in relation to the fields and the types of support (grants, loans or investments)

**(ii) Grants to ODFs**

The DUO can provide ODFs and POCPIAs with loans in terms of the Act. However, taking into account the actual situation of public interest activities by the private sector as a whole and the fact that the DUO and ODFs also have no other choice but to commence the Scheme through a trial and error process, for the time being, the DUO is to only provide grants to ODFs to enable them to provide POCPIAs with grants, loans or investments. In this manner, priority should be placed on the establishment of the Scheme while fostering ODFs.

**a) Grants by funds related to dormant deposits**

The DUO must provide ODFs with grants based on the following policy.

- Providing ODFs with grants after setting an optimum financial portfolio (combination of distribution) aimed at maximizing social outcomes
- Selecting the method of providing an ODF with grants in light of the content of the comprehensive support program formulated by the ODF
- Conducting proper financial risk management, including a risk peculiar to public interest activities by the private sector, i.e. the possibility that expected social outcomes are not achieved
- Providing non-financial support in collaboration with external organizations and experts as needed so that the creativity and ingenuity of ODFs are brought out, in order to promote the development of innovative means for solving social problems
- Making efforts to promote the provision of support on the condition of receiving provision of funds from private funders, such as private companies and private financial institutions, according to the characteristics of the project of ODFs

**b) Continuous monitoring of operational progress and check and verification of evaluation of outcomes**

The DUO must have a system for properly implementing the following matters to play a role as an incubator and an accelerator that supports players who try to solve social problems in Japan.

- Periodically receiving reports on the progress of public interest activities by the private sector from organizations disturbing funds on the previously set date, conducting continuous monitoring of operational progress, including on-site surveys, of ODFs for each problem and offering necessary cooperation, support, and advice to them, and checking and verifying evaluation of outcomes, thereby comprehensively ascertaining the achievement status of outcomes
- Offering non-financial support in a hands-on manner in collaboration with external organizations and experts as needed based on the conditions of individual ODFs, while taking advantage of consolidated information, or introducing external experts and organizations.

**(iii) Supervision of ODFs**

**a) Supervision of ODFs**

In light of the provisions of Article 22, paragraph (3) of the Act, the DUO must take the following measures in order to supervise ODFs so that funds related to dormant deposits are fairly utilized and projects are properly conducted at ODFs. In addition, the DUO provides for matters necessary to take said measures in the rules for the operations for promoting public interest activities by the private sector, and also stipulates them in the public offering guidelines. In addition, the DUO must also stipulate them in a contract for provision of funds (hereinafter referred to as a "fund offering contract") which is concluded between the DUO and an ODF.

- The DUO is to take actions for necessary and proper supervision of ODFs, such as collecting reports, conducting on-site inspections, or canceling selection and requiring return of funds it granted in the case of detecting any misconduct.
- If misappropriation or wrongful use of funds related to dormant deposits or any other problem is found for an ODF, the DUO is to take necessary measures, such as investigation of the causes of such misconduct, imposition of strict disposition on the related parties, and establishment of preventive measures and publication of the content thereof.
- The DUO must not select an organization whose selection was canceled and for

which a certain period of time has not passed since the date of the cancellation as an ODF.

- The DUO is to take measures to secure performance by ODFs in relation to the establishment of governance and compliance systems that are necessary to secure the fair and proper performance of operations at ODFs that it confirmed when selecting ODFs.
- The DUO is to confirm that matters necessary for an ODF to supervise a POCPIA (including the return of grants, loans or investments due to misconduct) are clearly stipulated in the public offering guidelines prepared by the ODF and a fund offering contract concluded between the ODF and the POCPIA.

**b) Succession of the projects of an ODF whose selection was cancelled**

Projects as well as property and liabilities of an ODF that returned grants because its selection was cancelled due to misconduct (limited to project covered by grants from the DUO as well as the property and liabilities pertaining to said project) are in principle succeeded by another ODF, and are succeeded by the DUO only under unavoidable circumstances. the DUO provides for matters necessary therefor in the rules for the operations for promoting public interest activities by the private sector and stipulates them in the public offering guidelines, and must also stipulate them in a fund offering contract concluded between the DUO and the ODF.

**(iv) Acceptance of grants funded by dormant deposits**

The DUO must stipulate in the rules for the operations for promoting public interest activities by the private sector that it is to take the following measures for the proper and efficient execution of budgets funded by grants funded originally by dormant deposits, as well as that it is to properly handle grants funded by dormant deposits and funds for investment in line with the provisions of Article 8, Article 21, paragraph (1), item (iii), Article 27, paragraphs (1) and (2), Article 28, Article 29, and Article 30 of the Act.

- The DUO limits expenses necessary for the operations for promoting public interest activities by the private sector<sup>19</sup> to those that are truly necessary for achieving outcomes to be achieved that were clearly specified in advance. The DUO also always carefully examines such expenses from the perspective of efficiency through effective utilization of the results of external audit., and thoroughly discloses the information related to the status of use of such expenses.
- If residual budget is estimated, the DUO effectively and efficiently performs the

operations for promoting public interest activities by the private sector, for example, by carrying over the relevant estimated amount to the income and expenditure budget for the next project year as a carried-over balance amount from the previous year. Incidentally, for the time being, said estimated amount is to be allocated as funds for investment provided in Article 29, paragraph (1) of the Act in light of the purport of said paragraph.

**(v) Surveys and studies concerning the promotion of public interest activities by the private sector**

**a) Surveys and studies for identifying issues to be addressed and organizing projects**

The DUO preferably conducts surveys and studies to identify issues to be addressed and organize projects of public interest activities by the private sector that can be covered by grants, loans or investments by positively collecting information on public interest activities by the private sector throughout Japan in collaboration with ODFs and POCPIAs. In addition, the DUO preferably encourages ODFs and POCPIAs to improve their own ability to identify issues to be addressed and organize projects.

**b) Surveys and studies that contribute to improving the Scheme and promoting activities**

Toward promoting public interest activities by the private sector, the DUO must plan and conduct surveys and studies to contribute to improving the Scheme and ensuring the effective implementation of projects by ODFs and POCPIAs in light of socioeconomic conditions and on-site needs. In addition, the DUO must widely disclose the outcomes of surveys and studies in order to share knowledge and information obtained through implementation of individual projects and promote their application to other projects.

**(vi) Enlightenment activities and public relations activities for the purpose of contributing to the promotion of public interest activities by the private sector**

**a) Strategic and effective enlightenment activities and public relations activities**

The DUO must strategically and effectively conduct enlightenment activities and public relations activities in relation to the Scheme as well as the status of utilization of funds related to dormant deposits and outcomes through various events



and diversified public relations media, in order to promote the inflow of private funds and highly-professional human resources that are necessary for public interest activities by the private sector by enhancing the public cognition of and interest in social problems, while also gaining sufficient public understanding of the utilization of funds related to dormant deposits for public interest activities by the private sector.

**b) Formulation and utilization of a symbol mark**

The DUO must formulate a symbol mark (a sign indicating that a project is conducted by utilizing funds related to dormant deposits) in order to make the status of utilization of funds related to dormant deposits visible and secure transparency, and also to publicize actual performance to the general public. In addition, the DUO will have ODFs and POCPIAs indicate the symbol mark in the projects they conduct by utilizing funds related to dormant deposits, and must stipulate necessary matters therefor in fund offering contracts it concludes with ODFs.

**(vii) Proper evaluation of outcomes**

The DUO must conduct self-evaluation on its own activities and comprehensive evaluation that includes the perspective of creation of the "autonomous and sustainable ecosystem for solving social problems" in relation to the Scheme as a whole, in addition to the formulation of "evaluation guidelines" that serve as the policy for evaluation of the Scheme as a whole.

The details are indicated in "Chapter 6 Matters Concerning the Evaluation of the Outcomes of the Utilization of Funds Related to Dormant Deposits."

**(2) Additional operations expected for operational improvements**

The DUO should first focus its own energy on the fundamental operations in order to secure the proper implementation of the fundamental operations stated in (1) above which are concretely provided for in the Act. After ensuring smooth execution of such fundamental operations, the DUO is expected to also work on the following operations in light of the progress of the operations for promoting public interest activities by the private sector in order to contribute to the proper implementation of the operations for promoting public interest activities by the private sector.

**(i) Development of the intellectual environment for knowledge structuring**

(operations incidental to Article 21, paragraph (1), items (iv) and (v) of the Act)

In order to further increase the effectiveness of public interest activities by the

private sector, it is necessary not only to develop totally new methods but also to find an optimum solution model for social problems by property combining knowledge obtained in the past. However, under the present circumstances, data on public interest activities by the private sector is neither collected nor accumulated to the sufficient extent.

Therefore, it is desirable to first make it possible to collect and accumulate knowledge about public interest activities by the private sector by establishing a mechanism to collect information on the existing efforts for public interest activities by the private sector (progress of projects and evaluation results) online from ODFs and POCPIAs.

On that basis, it is desirable to reflect the collected and accumulated information on efforts for public interest activities by the private sector on the operations of the DUO and ODFs, as structured knowledge that was analyzed concretely in a cross-sectional manner, and to widely provide and disclose such information in an easy-to-understand and easy-to-use manner and develop the intellectual environment that enables POCPIAs, to utilize such information in various scenes through utilization of ICT.

#### **(ii) Support for evaluation of outcomes**

(operations incidental to Article 21, paragraph (1), items (i), (ii), and (v) of the Act)

The DUO is required to promote the understanding and firm grounding of an outcome-oriented mindset at each ODF and POCPIA, implementation of effective and efficient evaluation of outcomes, and effective utilization of evaluation results in collaboration with ODFs. Therefore, in light of the present situation of Japan where implementation of evaluation of outcomes is still not sufficiently disseminated, the DUO preferably performs the following operations for supporting implementation of evaluation of outcomes in order to reduce time and labor for evaluation.

- Widely disclosing and providing information on evaluation results after structurally organizing it
- Providing evaluation tools that are standardized for each category, such as field and scale
- Supporting the implementation of effective and efficient evaluation of outcomes through offering of advice, training to ODFs by utilizing structurally organized information and evaluation tools

#### **(iii) On-the-job training**

(operations incidental to Article 21, paragraph (1), item (i) of the Act)

The DUO preferably provides opportunities for training through actual practice

by accepting a wide-variety of human resources while taking note of conflicts of interest so as to mainly contribute to the fostering of players in support in a hands-on manner.

In addition, the DUO preferably conducts the proper provision of information on organizations that act in a variety of fields in order to promote the networking of such organizations and support the establishment of a community in which such organizations autonomously learn from and cooperate with each other.

#### **(iv) International exchange**

(operations incidental to Article 21, paragraph (1), items (iv) and (v) of the Act)

It is desirable to conduct international exchange, such as exchange with related overseas organizations, response to various international conferences, and implementation of a project to invite the important persons of related overseas organizations.

## **2. System of the DUO to ensure fair and efficient utilization of funds related to dormant deposits**

The DUO is provided for as a general incorporated foundation in Article 20, paragraph (1) of the Act, and it must establish the systems<sup>20</sup> provided in the Act on General Incorporated Associations and General Incorporated Foundations (Act No. 48 of 2006). In addition to this, the DUO must be one that has the following systems and poses no risk of hindering the proper and fair implementation of the operations for promoting public interest activities by the private sector, from the perspective of ensuring the fair and efficient utilization of funds related to dormant deposits. Moreover, it needs to maintain a neutral position that the existing organizations that operate with a specific purpose have difficulty in adopting.

### **(1) Organizational operation system**

The DUO must establish the following organizational operation system in playing its roles.

- Deploying officers and employees who have knowledge and skills sufficient to perform duties appropriately and adopting a system that allows the utilization of external experts as needed
- Adopting a system that makes it possible to properly fulfill functions, such as continuous monitoring of operational progress, including on-site surveys, for each social problem, advice, cooperation, and support, and check and verification of evaluation of outcomes, separately from a department engaging in the operations

related to grants

- Establishing a specialized department that is necessary to supervise ODFs to ensure fair utilization of funds related to dormant deposits and proper performance of their operations
- Promoting efficient organizational operation through positive utilization of ICT.

## **(2) Composition of officers and employees**

### **(i) Composition of the board of councilors and directors**

In light of the fact that funds related to dormant deposits are funded by the public's assets, the DUO must properly and fairly perform its operations as an organization that plays a central role in the utilization of funds related to dormant deposits. Therefore, the DUO must have sufficient technical basis for the proper implementation of its plan for the operations for promoting public interest activities by the private sector, and the composition of its officers or employees must pose no risk of hindering its fair operations for promoting public interest activities by the private sector (Article 20, paragraph (1), items (ii) and (iii) of the Act).

Moreover, the DUO must appoint accounting auditors in light of the property of funds used for funds related to dormant deposits.

In addition to this, it is desirable to diversify the composition of the board of councilors by recruiting people from wide-ranging fields, including project, finance, labor, academia<sup>21</sup> and the mass media as well as the social sector (field related to public interest activities). On the other hand, it is also desirable to keep the total number of directors to the minimum necessary from the perspective of promoting prompt decision-making at the board of directors.

The DUO recruits persons who have expert knowledge for properly performing the operations for promoting public interest activities by the private sector as officers and employees and deploys them in an effective and efficient manner, and must also give due consideration so that officers and employees are not dominantly from specific organizations or fields.

### **(ii) Appointment of officers**

The DUO must have its officers make self-report on their own careers and disclose such reports in order to prevent conflicts of interest. In addition, if such a report is false, the Prime Minister strictly deals with<sup>22</sup> the case under the Act.

Moreover, regarding prevention of conflicts of interest, the DUO must stipulate the following measures in the rules for the operations for promoting public interest

activities by the private sector.

- When the board of councilors or the directors passes a resolution, it does so after excluding councilors or directors who have a special interest in the resolution.
- The DUO has its officers and employees periodically make self-report on the "matters that fall under conflicts of interest" and thoroughly confirm the content thereof at a proper organization, thereby promoting prompt discovery and correction.

The Prime Minister is to confirm whether an officer or a person expected to become an officer has been subjected to punishment based on his/her self-report at the time of approving the appointment of the officer. The same measure is taken in the case of replacement of an officer thereafter. Incidentally, if such report is false, the case is strictly dealt with in the same manner as the action taken to prevent conflicts of interest.

Furthermore, the DUO must take actions in light of the restrictions on reemployment of national public employees under the National Public Service Act (Act No. 120 of 1947).

### **(3) Governance and compliance systems**

#### **(i) Governance and compliance systems**

The DUO must establish the following organizations at the very least and take measures while ensuring that the governance and compliance systems for managing risks in terms of its organizational operation, such as misconduct and conflicts of interest, do not become excessive.

- Establishing a body to review its compliance measures (with the participation of external intellectuals) and a department for related affairs thereunder for the proper implementation of operations
- Having regulations and rules that are generally necessary for ensuring fair organizational operation, such as the operational rules and ethical rules for the board of councilors and the directors, rules for the compensation for the officers, and rules for information disclosure
- Having regulations and rules necessary for preventing misconduct and conflicts of interest<sup>23</sup>

#### **(ii) Establishment and enforcement of a whistle-blowing system**

In order to make the governance and compliance systems effective, the DUO must establish and enforce a whistle-blowing system in light of the "Guidelines for Project Operators Regarding the Establishment, Maintenance and Operation of Internal Reporting Systems Based on the Whistleblower Protection Act (December 9, 2016;

Consumer Affairs Agency)."<sup>24</sup>

## **Chapter 4 Matters Concerning the Standards and Procedures for the Designation of the DUO**

The details of the standards and procedures for designation are stipulated in the public offering guidelines in line with the following ideas.

### **1. Standards for designation**

In designating an organization as the DUO, organizations intending to obtain designation under the provisions of Article 20, paragraph (1) of the Act (hereinafter referred to as "organizations applying for designation") are examined based on the standards for designation<sup>25</sup> referred to in the items of said paragraph in light of the operations and systems of the DUO indicated in Chapter 3 above.

### **2. Procedures for designation**

The procedures for designation are carried out in line with the following steps.

- The Cabinet Office prepares the public offering guidelines in light of the Basic Policy and publicizes them.
- Organizations applying for designation file an application for designation according to the public offering guidelines.
- Organizations applying for designation are subjected to documentary and interview examinations. In the interview examination, it is confirmed that the heads of organizations applying for designation have a strong will to carry out and realize the mission of the DUO.
- After deliberations at the Council, the Prime Minister selects one organization that is found to best fitted for the standards for designation and designates it as the DUO.

In addition, in order to secure the fairness and transparency of the procedures for designation, any person who has a special interest in an organization applying for designation<sup>26</sup> is excluded from deliberations at the Council, and the names of organizations applying for designation and examination results are also publicized. However, parts relating to the ideas and know-how of organizations applying for designation are not publicized so as not to impair the rights and other legitimate interests of organizations applying for designation.

## **Chapter 5 Matters Concerning the Standards and Procedures for the Approval of Project Plans Prepared by the DUO**

### **1. Standards for approval**

When granting approval for a project plan of the DUO under the provisions of Article 26, paragraph (1) of the Act, the Prime Minister uses, as standards for approval, the fact that the project plan and income and expenditure budget for which an application for approval was filed are in line with the Basic Policy and the Basic Plan.

### **2. Procedures for approval**

When intending to obtain approval for its project plan and income and expenditure budget from the Prime Minister pursuant to the provisions of Article 26, paragraph (1) of the Act, the DUO must submit a written application to the Prime Minister with the written project plan, income and expenditure budget document no later than one month before the commencement of the relevant project year (for a project year in which the date of designation is included, without delay after obtaining designation). In addition, when intending to obtain approval for a change of its project plan or income and expenditure budget, the DUO must submit a written application describing the content and reason of the change to the Prime Minister in advance.

When intending to grant approval for a project plan and/or an income and expenditure budget prepared by the DUO, the Prime Minister hears opinions in advance from the Council. The same also applies to approval for a change of a project plan and an income and expenditure budget.

Moreover, when having obtained approval from the Prime Minister pursuant to the provisions of Article 26, paragraph (1) of the Act, the DUO must publicize the approved project plan and income and expenditure budget without delay.



## **Chapter 6 Matters Concerning the Evaluation of the Outcomes of the Utilization of Funds Related to Dormant Deposits**

The DUO, ODFs, and POCPIAs are to conduct evaluation in line with the policy indicated below. In addition, the DUO must establish the policy for the evaluation of the Scheme as a whole as evaluation guidelines in line with the ideas indicated in this Chapter.

### **1. Significance and purposes of the evaluation of the outcomes**

#### **(1) Significance of the evaluation**

Upon utilizing funds related to dormant deposits, it is ultimately required to create outcomes, that is, promotion of solution of social problems, in a visible form.

Therefore, it is necessary to work on making outcomes visible by conducting "social impact measurement"<sup>27</sup> that puts emphasis on the degree of achievement of the outcomes in relation to all public interest activities that are carried out by the private sector with funds related to dormant deposits after clearly indicating the outcomes to be achieved in advance, while securing the transparency and properness of the process.

Incidentally, it is necessary to ensure that the administrative workload related to the evaluation of the outcomes of public interest activities by the private sector does not hinder public interest activities by the private sector that should be originally carried out.

#### **(2) Purposes of the evaluation**

The purposes of conducting the social impact measurement of the outcomes of public interest activities by the private sector are as follows.

- Gaining the understanding of the general public by positively transmitting information on the outcomes of the utilization of funds related to dormant deposits
- Effectively and efficiently carrying out public interest activities by the private sector by properly reflecting the evaluation results on the allocation of resources, such as budgets and human resources.
- Promoting the improvement of the quality of all public interest activities by the private sector, the identification of unique, promising, and innovative public interest activities by the private sector, the acquisition of private funds and human resources by conducting strict evaluations

## **2. Evaluation of POCPIAs**

### **(1) Entities that conduct evaluation**

Regarding the evaluation of POCPIAs in the Scheme, POCPIAs basically evaluate themselves ("self-evaluation"<sup>28</sup>) on the premise of securing the objectivity and legitimacy of evaluation. Entities that conduct evaluation must conduct evaluation by collecting and analyzing necessary information, as well as by systematically collecting information ranging from inputs ("inputs" of resources, such as budgets and human resources) to outputs ("results" that are directly obtained through implementation of projects) and outcomes ("outcomes" that are brought by outputs through implementation of projects) in relation to public interest activities by the private sector after clearly indicating outcomes to be achieved and by mutually connecting such information in the form of a logic model<sup>29</sup>.

POCPIAs must secure the reliability and objectivity of evaluation by conducting "external evaluation" and "third party evaluation" in relation to public interest activities by the private sector that are large-scale, important, or of strong interest to the public after agreeing with ODFs.<sup>30</sup> Incidentally, in that case, from the perspective of ensuring fair and transparent evaluation, it is necessary to ensure that persons who have an interest, in principle, do not take part in evaluation. If any person who has an interest has to take part in evaluation, the POCPIA must make clear the name of such person and the reason therefor.

If an organization that has little experience in actual evaluation conducts evaluation, a relevant ODF must provide support for evaluation, including technical support and training for evaluation by evaluation experts and management of progress as needed in order to complement and ensure expertise necessary for the evaluation.

### **(2) Timing of evaluation**

There are the following types of evaluation in terms of the timing thereof:

- (i) "preliminary evaluation" that is conducted by POCPIAs to determine the necessity and validity of a project prior to carrying out the project by utilizing funds related to dormant deposits;
- (ii) "interim evaluation" that is periodically conducted to understand the progress of outcomes and review project activities and the allocation of resources: such as budgets and human resources, in relation to a project carried out over multiple fiscal years by utilizing funds related to dormant deposits;
- (iii) "ex-post evaluation" that is conducted to verify the status of achievement of outcomes and the validity of a project after utilization of funds related to dormant

deposits is terminated; and

- (iv) in the case of a project related to a social problem that requires time for solution, "follow-up evaluation" that is conducted to understand the secondary effects, ripple effects of the project and verify the validity of past evaluation sometime after the termination of the utilization of funds related dormant funds.

POCPIAs must determine and publicize the necessity of these evaluations and the timing thereof in advance in consideration of the purposes, goals, and scale of public interest activities by the private sector, the period of support, characteristics, and burden of evaluation. In doing so, POCPIAs must ensure the continuity and consistency of time-series evaluations by organically coordinating the purpose and method of evaluations and measures for utilizing evaluation results.

### **(3) Evaluation method**

POCPIAs must clearly and concretely set the purpose and method of evaluation in advance in light of the following points so as to secure the fairness, reliability, and continuity of evaluation and ensure that effective evaluation is conducted.

#### **(i) Perspectives of evaluation**

POCPIAs must conduct comprehensive evaluation, including not only outcomes achieved by public interest activities by the private sector but also innovativeness of public interest activities by the private sector.

#### **(ii) Selection of an evaluation method**

There are many kinds of concrete methods and content of social impact measurement depending on the field, project conducted by individual organization, purpose of evaluation, needs of persons who have an interest. However, if individual organizations conduct evaluation by significantly different methods, the comparability of the evaluation, and then the reliability thereof, are lost, which will lead to the impairment of the significance and effects of evaluation.

Therefore, it is necessary to conduct evaluation in line with the evaluation guidelines established by the DUO while securing diversity in evaluation methods.

#### **(iii) Setting of evaluation items and standards**

POCPIAs must clearly and concretely establish proper evaluation items and standards in advance according to the characteristics of public interest activities by the private sector and purpose of evaluation in order to secure the reliability and continuity

of evaluation and conduct effective evaluation. In doing so, it is important to set an outcome index that is measurable and can prove effectiveness, from the perspective of securing the objectivity of evaluation. Therefore, such outcome index is basically a quantitative index. However, depending on the subject of evaluation, it is necessary to pay attention so as to prevent it from being excessively biased to a quantitative scale, for example, by using a qualitative index and a quantitative index in combination.

Incidentally, if public interest activities by the private sector are conducted over a long period of time, POCPIAs must conduct one of the following activities:

- a) introduce a method for advancing to the next stage after evaluating the degree of achievement as of the time with a short-term goal set; and
- b) make it easier to understand changes in the situation, the status of achievement of goals, and the progress during the period of public interest activities by the private sector, for example, by conducting periodic interim evaluations.

It is necessary to consider changes to the project, including resetting of goals and acceleration and discontinuation of the project, at the time of each of a) and b).

#### **(4) Continuous monitoring of operational progress and checking and verification of evaluation results by ODFs**

##### **(i) Continuous monitoring of operational progress**

ODFs must conduct continuous monitoring of operational progress of public interest activities by the private sector, including on-site surveys, targeting POCPIAs and provide necessary cooperation, support, advice in order to continuously understand whether POCPIAs steadily achieve outcomes and promote their performance of projects.

Incidentally, it is necessary to handle indexes required to understand the operational progress of public interest activities by the private sector by properly separating them from the evaluation indexes that are handled as evaluation standards.

##### **(ii) Checking and verification of evaluation results**

In checking and verifying evaluation results, the following is required to secure the validity and objectivity of evaluation.

If a POCPIA conducts self-evaluation, it must prepare an "evaluation report" and make a report to a relevant ODF. The ODF must check and verify the validity and objectivity of the "evaluation report" of the POCPIA.

ODFs must incorporate matters necessary for the continuous monitoring of operational progress of POCPIAs and the checking and verification of evaluation results in the public offering guidelines and fund offering contracts they conclude with POCPIAs.

### **(5) Utilization of evaluation results**

POCPIAs must fulfill accountability to the public in relation to the utilization of funds related to dormant deposits for public interest activities by the private sector and also secure the fairness and transparency of evaluation of outcomes of public interest activities by the private sector. They must also positively publicize evaluation results in a manner that is easy to understand for the general public so that the outcomes and evaluation results of public interest activities by the private sector are widely utilized in society.

Where having checked and verified the evaluation results of POCPIAs, ODFs preferably should disclose the results of checking and verification upon request of related parties, as well as positively publicizing the results to the general public in an-easy-to-understand manner.

### **3. Evaluation of the DUO and ODFs**

The DUO and ODFs must properly conduct self-evaluation according to 2.(1) to (3). In doing so, regarding ODFs, evaluation must be comprehensively conducted, including not only the outcomes achieved by POCPIAs to which they provided grants, loans or investments but also their own activities.<sup>31</sup> In addition, regarding the DUO, evaluation must be comprehensively conducted from the perspective of not only expansion of social outcomes by individual public interest activities by the private sector but also creation of an autonomous and sustainable ecosystem for solving social problems, including ODFs and POCPIAs through fostering of players in solving social problems.

The DUO and the Council must continuously monitor operational progress and check and verify evaluation results according to 2.(4). In doing so, the DUO must periodically receive reports on the progress of public interest activities by the private sector from ODFs, and also conduct the continuous monitoring of operational progress of ODFs, including on-site surveys, and provide necessary cooperation, support, advice thereto. In addition, the Council periodically receives reports on the progress of the operations for promoting public interest activities by the private sector from the DUO, and also checks and verifies the comprehensive evaluation of the Scheme, which is conducted by the DUO, and makes recommendations to the Prime Minister when the Council finds it necessary.

The DUO and ODFs must positively publicize evaluation results to the general

public in an easy-to-understand manner according to 2.(5). In doing so, the DUO must make it possible to collectively inspect not only its own evaluation results but also the evaluation results of ODFs and POCPIAs. In this case, the DUO must organize and publicize not only the conclusions of evaluations but also the goals of public interest activities by the private sector, the content of implementation, achieved outcomes, and the development of new public interest activities by the private sector based on evaluation results in an easy-to-understand manner, while giving due consideration to the protection of personal information and intellectual property.

#### **4. Matters for consideration in evaluating the outcomes**

##### **(1) Evaluation of innovative public interest activities by the private sector**

Innovative public interest activities by the private sector generally refer to public interest activities by the private sector that have a low probability of achieving goals (high risk) but bring about a significant change to society (social innovation) if they are realized. Therefore, it is not desirable to evaluate innovative public interest activities by the private sector based on the same evaluation items and standards as those for other public interest activities by the private sector. In order to secure the flexibility and freedom of solution means and aim at the realization of social innovations, it is necessary to constantly verify and review the validity of goals and approaches according to changes in the social situation and the progress of public interest activities by the private sector in the evaluation of innovative public interest activities by the private sector while clearly indicating the outcomes to be achieved in advance.<sup>32</sup> Moreover, on the premise that innovative public interest activities by the private sector are high risk, even if outcomes are not achieved in accordance with the goals, the factors of such result are steadily analyzed, and the analysis results are utilized in subsequent public interest activities by the private sector. Moreover, it is also necessary to positively evaluate technical limitations, know-how, secondary effects, and ripple effects in addition to positively evaluating innovativeness.

##### **(2) Effective and efficient promotion of public interest activities by the private sector**

The evaluation of public interest activities by the private sector is not aimed at evaluation itself, and it is necessary to effectively utilize the evaluation results in the management of public interest activities by the private sector, such as the review of public interest activities by the private sector, the allocation of resources, such as human resources, and furthermore, reflection on the planning of new public interest activities by

the private sector, with the aim of realizing outcomes.<sup>33</sup>

### **(3) Reduction of burden of evaluation**

It is important to conduct necessary evaluation to understand outcomes, but it is also true that considerable costs, including time and labor in addition to expenses, are required to conduct evaluation. In general, it is desirable that entities carrying out projects themselves bear costs for evaluation. However, preferably, the DUO provides standardized evaluation tools for supporting the implementation of effective and efficient evaluation of outcomes by ODFs and POCPIAs and also tries to reduce time and labor for evaluation by considering a mechanism that enables ODFs and POCPIAs to consult with external evaluation experts when conducting social impact measurement, taking into account the present situation in Japan where social impact measurement has yet to be disseminated and the fact that accountability to the general public is strongly required in relation to the outcomes of the utilization of funds related to dormant deposits. In doing so, it is also necessary to include expenses required therefor in the cost coverage by the utilization of funds related to dormant deposits for the time being.

## **Chapter 7 Other Matters Necessary for the Utilization of Funds Related to Dormant Deposits**

### **1. Cost coverage by the utilization of funds related to dormant deposits**

The concrete scope of expenses covered by grants, loans or investments is to be determined by individual fund offering contracts concluded among the DUO, ODFs, and POCPIAs based on the rules and regulations that the DUO formulates in light of the Basic Policy and the Basic Plan. When formulating the rules and regulations, it is desirable that the DUO fully carefully examines the content of expenses that have generally not been covered by conventional administrative subsidies, such as personnel cost and equipment costs for carrying out public interest activities by the private sector and expenses for conducting self-evaluation of outcomes by ODFs and POCPIAs, and has them covered by funds related to dormant deposits within the scope found reasonably necessary to achieve the outcomes to be achieved that were respectively clearly indicated in advance, from the perspective of promoting flexible utilization of funds related to dormant deposits in order to exert the creativity and ingenuity of private organizations. In that case, the levels of personnel cost covered by grants, loans or investments, in particular, must be thoroughly disclosed to obtain understanding of the general public and residents.

Moreover, grants provided by the DUO to ODFs preferably cover not only expenses which ODFs allocate to funds used for providing POCPIAs with grants, loans or investments but also expenses which ODFs themselves require in utilizing funds related to dormant deposits, for example, expenses for securing expertise that is necessary for ODFs to offer non-financial support to POCPIAs, from the same perspective as mentioned above.

In addition, from the perspective of promoting flexible utilization of funds related to dormant deposits, it is also necessary to stipulate the extent to which a POCPIA can divert expense regardless of the accounting items without obtaining approval from an ODF in advance in a fund offering contract concluded between the ODF and the POCPIA based on the rules and regulations that the DUO formulates in light of the Basic Policy and the Basic Plan.

Incidentally, the DUO is required to work on full-scale preparation for the commencement of operation of the Scheme immediately after being designated by the Prime Minister. Therefore, organizations applying for designation submit documents that clearly indicate the content of preparations for the commencement of the operation and the estimated amount of expenses required for preparation and the grounds thereof when it applies for designation, and the Prime Minister examines organizations applying for



designation in consideration of these documents. On that basis, if an organization applying for designation is designated as the DUO, it covers expenses required for preparation by grants funded by dormant deposits.

## **2. Matters to be considered by ODFs when selecting POCPIAs by way of public offering**

When selecting POCPIAs by way of public offering, ODFs must stipulate the standards for selection of POCPIAs, procedures for applying for and determining grants, loans or investments, and other methods of providing grants, loans or investments in the public offering guidelines.

### **(1) Matters examined when selecting POCPIAs and standards**

When selecting POCPIAs, ODFs must examine plans relating to the implementation of public interest activities by the private sector, implementation system thereof, and matters concerning governance and compliance systems indicated in Chapter 7, 4 below. Out of these matters to be examined, plans relating to the implementation of public interest activities by the private sector preferably contain the concrete content of the following elements in light of the basic principles for the utilization of funds related to dormant deposits indicated in Chapter 2 above and the roles that POCPIAs are expected to play, while utilizing logic models:

- (i) problems to be solved and goals (outcomes to be achieved) and beneficiaries;
- (ii) setting of exits of support and period of support;
- (iii) process toward the exits of support;
- (iv) methods for solving problems; and
- (v) timing and methods of evaluation

On these bases, it is desirable that ODFs preferentially select organizations that carry out public interest activities by the private sector in collaboration with relevant entities beyond barriers between fields and organizations that carry out public interest activities by the private sector that are found highly innovative while concretely exerting their creativity and ingenuity, including positive utilization of ICT.

When providing POCPIAs with grants, loans or investments, ODFs preferably stipulate as follows in fund offering contracts in advance: If a POCPIA is determined to be unable to continue project subject to support or the relevant project is determined not to be found as innovative as expected in the beginning or to lack innovativeness in the process of carrying out the project, support will be terminated after consultation with the POCPIA.

In addition, due consideration must be given so that participation of ODFs in projects that private financial institutions can deal with will not deprive private financial institutions of project opportunities.

## **(2) Examination method**

ODFs must take actions in accordance with the matters indicated in Chapter 3, 1.(1)(i)b) "B) Examination method."

## **3. Supervision of POCPIAs by ODFs**

Article 22, paragraph (4) of the Act provides that in order to ensure that POCPIAs properly and reliably carry out public interest activities by utilizing funds related to grants funded by dormant deposits, ODFs are to take measures for the necessary and proper supervision of POCPIAs. In light of this, ODFs must take measures for the necessary and proper supervision of POCPIAs in accordance with Chapter 3, 1.(1)(iii)a).

## **4. Governance and compliance systems required in ODFs and POCPIAs**

ODFs and POCPIAs must organize at the very least the following structures while ensuring that the governance and compliance systems for managing risks in terms of their organizational operation, such as misconduct and conflicts of interest, do not become excessive.

- Organizing structures in accordance with the governance and compliance systems of the DUO as mentioned in Chapter 3, 2.(3) and taking measures
- Limiting the usages of funds provided by grants, loans or investments to those permitted in fund offering contracts for the grants, loans or capital investments, and conducting separate accounting and keeping books
- Implementing budget properly and efficiently

## **5. Consideration to be given when selecting effective utilization methods to encourage private organizations to fully exert their creativity and ingenuity**

Article 16, paragraph (5) of the Act provides that when utilizing funds related to dormant deposits, due consideration is to be given to encouraging private organizations to fully exert their creativity and ingenuity through the selection of effective utilization methods.

Various methods are assumed as the effective utilization methods of funds, such as Outcome-Based Grant or Contracts and provision of funds in the form that creates a collective impact, as funding methods with focus on goals for achievements, as well as

grants, loans or investments over multiple fiscal years indicated in Article 16, paragraph (5) of the Act as an example.<sup>34</sup> It is not necessarily appropriate to suggest which of these methods is effective in light of the present situation of Japan.

Therefore, in order to fill a gap in funding methods that are generally adopted and correspond to a wide variety of funding needs of POCPIAs, the DUO and ODFs preferably develop a wide variety of effective utilization methods through on-site trial and error process without being bound by the existing frameworks, such as profit-making and non-profit and grants, loans, and investments.

Consequently, it is necessary to ensure that the DUO and ODFs can develop and select diverse funding methods flexibly depending on the circumstances of the moment. However, the DUO and ODFs must accumulate and widely disclose not only best practices but also failure cases while strictly evaluating the effectiveness of each funding method.

## **6. Review in five years after the full enforcement of the Act**

Article 9 of the Supplementary Provisions of the Act provides that "With regard to the provisions of this Act, in approximately five years after its enforcement a review is to be conducted by taking into consideration the status of the enforcement of this Act and necessary measures are to be taken as needed, based on the results of the review." In addition, a supplementary resolution to the effect that the Act is "to be broadly reviewed five years after its enforcement" was made at both houses of the Diet.<sup>35</sup>

Therefore, as the Scheme is "a kind of unprecedented social experiment" that is unprecedented in Japan, it is to be reviewed broadly on January 1, 2023, that is, five years after January 1, 2018, the date on which the provisions of the Act come into effect in full. All parties related to the Scheme are strongly required to keep this in mind and fulfill their own responsibilities based thereon.

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- <sup>1</sup> The following matters are provided in Article 18, paragraph (2) of the Act as those decided in the Basic Policy:
- (i) matters concerning the significance and goals of the utilization of funds related to grants funded by dormant deposits;
  - (ii) basic matters concerning the utilization of funds related to grants funded by dormant deposits;
  - (iii) matters concerning the operations for promoting public interest activities by the private sector necessary for achieving the goals set forth in item (i);
  - (iv) matters concerning the standards and procedures for the designation under Article 20, paragraph (1);
  - (v) matters concerning the standards and procedures for the approval of project plans prepared by designated utilization organization;
  - (vi) matters concerning the evaluation of the outcomes of the utilization of funds related to grants funded by dormant deposits; and
  - (vii) other matters necessary for the utilization of funds related to grants funded by dormant deposits.
- <sup>2</sup> Upon formulating the Basic Policy, wide-ranging opinions have been heard from the public and organizations that carry out activities in local sites through hearing from private organizations and intellectuals and holding of local public hearings on the occasion of the Council as well as invitation of opinions via the Internet, taking into account that Article 16, paragraph (3) of the Act provides that "due consideration must be given to properly reflecting diverse opinions" in addition to the opinions of the Council.
- <sup>3</sup> The project plan and income and expenditure budget that the DUO prepares for each project year are required to be in line with the Basic Plan. (Article 26, paragraph (1) of the Act)
- <sup>4</sup> The "operations for promoting public interest activities by the private sector" means the following operations that are to be performed by the DUO as provided in Article 21, paragraph (1) of the Act:
- (i) providing ODFs with grants or loans for funds necessary for the offering of grants, loans or investments;
  - (ii) providing POCPIAs with loans for funds necessary for the implementation of public interest activities by the private sector;
  - (iii) accepting grants funded by dormant deposits;
  - (iv) conducting surveys and studies concerning the promotion of public interest activities by the private sector;
  - (v) carrying out awareness-raising and public relations activities for the purpose of contributing to the promotion of public interest activities by the private sector; and
  - (vi) operations incidental to those set forth in the preceding items.
- <sup>5</sup> A "social innovation" is "a novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions. Being 'novel' means:
- (i) being new to the field, sector, region, or user; or
  - (ii) being applied in a new way.
- Social innovations do not need to be completely original or unique. The value created thereby accrues mainly to society." (Stanford Social Innovation Review)
- <sup>6</sup> As public interest activities by the private sector are provided for as those that "contribute to further increasing the interests of the general public" in Article 16, paragraph (1) of the Act, they are limited to activities in Japan.
- <sup>7</sup> The "self-propelling of project" means becoming able to continue project by securing donations and project incomes per se without depending on funds related to dormant deposits.
- <sup>8</sup> The following are cited as the examples of barriers to inflow of private funds:

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- (i) for most public interest activities by the private sector, beneficiaries often have difficulty in paying compensation for services, and therefore, it is impossible to continuously secure sufficient sales to move into black and it is hard to establish such activities as a project model;
  - (ii) non-profit corporations are restricted in terms of the distribution of profits to external persons, and therefore, it is difficult to collect external funds; and
  - (iii) there are no sufficient mechanisms for the credit rating and external audit of POCPIAs, and therefore, it is impossible to sufficiently secure the reliability of POCPIAs.
- <sup>9</sup> "Collective impact approach" means an approach wherein, beyond barriers between fields, related parties in various positions aim at creating greater social outcomes more quickly by making efforts that utilize their own strengths intensively and effectively under a common evaluation system after sharing goals and outcomes.
- <sup>10</sup> Concretely, the Prime Minister has the following supervisory power:
- (i) indication of the national government's idea related to the utilization of funds related to dormant deposits through formulation and publicity of the Basic Policy and the Basic Plan (Articles 18 and 19 of the Act);
  - (ii) approval for the rules for the operations for promoting public interest activities by the private sector, project plan prepared by the DUO (Article 23, paragraph (1) and Article 26, paragraph (1) of the Act);
  - (iii) evaluation after having the DUO submit a project report (Article 26, paragraph (4) and Article 19, paragraph (2), item (iv) of the Act);
  - (iv) approval for the appointment or dismissal of officers (Article 24, paragraph (1) of the Act);
  - (v) order to dismiss an officer if the officer has violated any law or regulation or has committed misconduct (Article 24, paragraph (2) of the Act);
  - (vi) submission of reports or materials (Article 43, paragraph (1) of the Act);
  - (vii) on-site inspection (Article 44, paragraph (1) of the Act);
  - (viii) order necessary for supervision to the extent necessary (Article 31 of the Act); and
  - (ix) rescission of designation if the DUO cannot properly and reliably perform its project (Article 33, paragraph (1) of the Act).
- <sup>11</sup> "Management support," for example, include support for the formulation of a project plan, strengthening of organizational base, funding practice, planning of a public relations strategy, visualization of social outcomes.
- <sup>12</sup> POCPIAs not only include nonprofit corporations, such as incorporated associations, incorporated foundations, specified nonprofit corporations, social welfare corporations, and incorporated educational institutions, but also can include profit-making corporations, such as stock companies.
- Incidentally, as incorporated administrative agencies are established as systems to engage in the processes and services of the national or local government that are related to the implementation of policy(\*), they are hardly assumed to become POCPIAs.
- \* Article 2 of the Act on General Rules for Incorporated Administrative Agencies (Act No. 103 of 1999) provides that "The term 'Incorporated Administrative Agency' ... means a corporation, incorporated ... for the purpose of effectively and efficiently conducting, from among the processes and services that need to be implemented securely from a public perspective, such as the stability of the lives of the people, society and the economy, and that do not need to be implemented directly by the State itself, those affairs that may not necessarily be implemented properly if entrusted to private entities or that need to be conducted monopolistically by a single entity (...)." In addition, the Local Incorporated Administrative Agency Act (Act No. 118 of 2003) also includes the provisions to the same effect in relation to local incorporated administrative agencies.
- <sup>13</sup> The Prime Minister has the following power regarding the DUO and assumes supervisory

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- responsibility for ensuring the proper and reliable performance of the operations for promoting public interest activities by the private sector by the DUO:
- (i) designation of the DUO (Article 20, paragraph (1) of the Act);
  - (ii) approval for and order to change the rules for the operations for promoting public interest activities by the private sector established by the DUO, appointment of officers, and a project plan (Article 23, paragraphs (1) and (3), Article 24, and Article 26 of the Act); and
  - (iii) supervision of the DUO (collection of reports, on-site inspection, rescission of designation) (Article 31, Article 33, paragraph (1), Article 43, paragraph (1), and Article 44, paragraph (1) of the Act).
- <sup>14</sup> Examples of efforts as a coordinator include the establishment and ascertaining of POCPIAs and the publicity of systems that contribute to solving problems.
- <sup>15</sup> Examples of efforts for collaboration and cooperation with POCPIAs include the formation of sectoral public interest platforms consisting of entities carrying out in various activities in local communities (including not only POCPIAs but also existing support organizations), which function as an "opportunity for co-creation" aimed at creating a great change in society that is necessary for the local community (social innovation).
- <sup>16</sup> The DUO must confirm the following points in relation to the organizational structure of an organization applying for selection:
- (i) organizational structure that is sufficient to fairly perform operations:
    - governance and compliance systems indicated in Chapter 7, 4;
  - (ii) organizational structure that is sufficient to properly perform the operations:
    - having a top management system that matches an organization that plays the roles that an ODF is expected to play;
    - conducting proper financial risk management, including the risk peculiar to public interest activities by the private sector, i.e. the possibility that expected social outcomes are not achieved, and in particular, conducting proper claim management, including formulation of a loan collection plan, in the case of granting loans.
- <sup>17</sup> It is generally considered that grants are suited for the periods of start-up and growth, loans are suited for the periods of development and maturity, and capital investments are suited for the periods of growth and development.
- <sup>18</sup> ODFs are required to establish a review committee consisting of third parties for selecting POCPIAs and checking and verifying the evaluation of outcomes of public interest activities by the private sector.
- <sup>19</sup> "Expenses necessary for the operations for promoting public interest activities by the private sector" means the "expenses necessary for the operations for promoting public interest activities by the private sector" provided in Article 27, paragraph (1) of the Act.
- <sup>20</sup> The Act on General Incorporated Associations and General Incorporated Foundations (Act No. 48 of 2006) provides that a general incorporated foundation is required to fulfill the following matters:
- (i) having councilors, a board of councilors, directors, a board of directors, and auditors;
  - (ii) having designated at least three councilors and directors, respectively; and
  - (iii) providing the method for appointing and dismissing councilors in the articles of incorporation.
- <sup>21</sup> Those in the academic arena preferably include persons who are well-versed in the trends of the science and technology field.
- <sup>22</sup> Rescission of the designation of the DUO (Article 33, paragraph (1), item (iii) of the Act) at the time when such fact is revealed, including cancellation of approval for appointment of the relevant officer (Article 24, paragraph (2) of the Act)
- <sup>23</sup> It is necessary to provide that at the time of occurrence of misconduct, the DUO is to implement three measures, i.e. investigation of the causes of the misconduct, imposition of

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strict disposition on the related parties, and establishment of preventive measures, without fail, and to publicize the content thereof.

<sup>24</sup> The following must be implemented as the establishment and enforcement of the whistle-blowing system:

- (i) establishing and properly enforcing a cross-departmental mechanism for treating reports for which the officers are responsible in order to properly carry out the process from receipt of reports on a violation of law or regulation to implementation of surveys and corrective measures, and establishment of preventive measures;
- (ii) providing the rules for preventing misconduct and conflicts of interest and the mechanism for dealing with reports in the rules for the operations for promoting public interest activities by the private sector, and in doing so, clearly specifying matters concerning the prohibition of dismissal or any other disadvantageous treatment of whistleblowers and thorough securing of anonymity of whistleblowers; and
- (iii) establishing and publicizing the places for accepting whistle-blowing, such as a compliance office, and also accepting reports from external project operators (ODFs), in addition to whistle-blowing.

<sup>25</sup> The following matters are provided for as standards set forth in Article 20, paragraph (1), items (i) to (vi) of the Act; in addition, the "financial basis" provided in item (ii) means fundamental skills for the propriety of the prospect of future finance, propriety of accounting processing and financial management, and propriety of information disclosure. while the "technical basis" means fundamental skills, such as technology, specialized human resources, and facilities for performing the operations for promoting public interest activities by the private sector:

- (i) its plan for the operations for promoting public interest activities by the private sector concerning employees, implementation methods of the operations and other matters is adequate for properly performing the operations for promoting public interest activities by the private sector;
- (ii) the organization has sufficient financial and technical basis for the proper implementation of its plan for the operations for promoting public interest activities by the private sector set forth in the preceding item;
- (iii) the composition of its officers or employees poses no risk of hindering its fair operations for promoting public interest activities by the private sector;
- (iv) in cases where the organization also engages in any other activities, those other activities pose no risk of hindering its fair operations for promoting public interest activities by the private sector;
- (v) the organization is not one whose designation was rescinded pursuant to Article 33, paragraph (1) and for whom three years have not passed since the day of the rescission;
- (vi) the organization has no officer that falls under either of the following:
  - (a) a person that has been sentenced to imprisonment or heavier punishment and for whom three years have not passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement;
  - (b) a person that has been subject to a fine pursuant to the provisions of this Act and for whom three years have not passed since the day on which the person finished serving the sentence or ceased to be subject to its enforcement.

<sup>26</sup> A "person who has a special interest in an organization applying for designation" means a person who is not expected to fairly exercise his/her voting rights for such reasons as that the selection of the organization applying for designation as the DUO is directly related to the personal interest of said person.

<sup>27</sup> A "social impact measurement" means quantitatively and qualitatively understanding "outcomes (short-, medium-, and long-term)," such as social or environmental "changes" and "benefits" that arose as a result of the relevant project and activities, including short- and long-term changes, and judging the value of the project and activities (making evaluation). It is

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- implemented through four evaluation processes, i.e. planning, execution, analysis, and report and utilization, after making clear the logical relationships from "inputs," "activities," "outputs" to "outcomes (short-, medium-, and long-term)" by utilizing a "logic model." ("Toward promoting social impact measurement—basic concept of social impact measurement toward solving social problems and future measures—)
- <sup>28</sup> "Self-evaluation" means evaluation in which the entity conducting project per se conducts all the evaluation processes.
- "External evaluation" means evaluation in which the entity conducting project entrusts an external expert with "analysis" out of the evaluation processes.
- "Third party evaluation" means evaluation in which the entity conducting project entrusts an external third-party organization with all the evaluation processes.
- <sup>29</sup> "Logic model" means a model obtained by organizing the logical relationships among "input," "activities," "outputs," and "outcomes (short-, medium-, and long-term)."
- <sup>30</sup> "Participatory evaluation" has recently been attracting attention. In "participatory evaluation," not only the organizations conducting project and evaluation experts but beneficiaries of services provided by the project also participate in the evaluation processes and conduct evaluation in cooperation with each other.
- <sup>31</sup> A possible example is the effectiveness of the method of providing grants at an ODF.
- <sup>32</sup> The idea of "Developmental Evaluation" has recently been attracting attention mainly in the United States and Europe for the purpose of evaluating those matters whose purposes and time axes flexibly change, such as social innovations, more accurately.
- <sup>33</sup> In the United States and Europe, there has recently been a shift to an "impact management" wherein resource allocation and project operation are reviewed from the standpoint of expanding outcomes after not merely evaluating outcomes but also understanding the status of achievement of outcomes.
- <sup>34</sup> Incidentally, the following are example matters that are expected to serve as references when the DUO and ODFs consider grants with focus on goals for outcomes in the future:
- (i) grants linked to outcomes:
    - Outcome-Based Grant or Contracts;
    - Tiered-Evidence Grant Program;
  - (ii) grants to multiple organizations that are collaborated with each other to achieve common outcomes:
    - Collective Impact Approach.
- <sup>35</sup> "Supplementary Resolution on the Draft Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector" (November 18, 2016; Committee on Financial Affairs of the House of Representatives)
- "Supplementary Resolution on the Draft Act on Utilization of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector" (December 1, 2016; Committee on Financial Affairs of the House of Councillors)