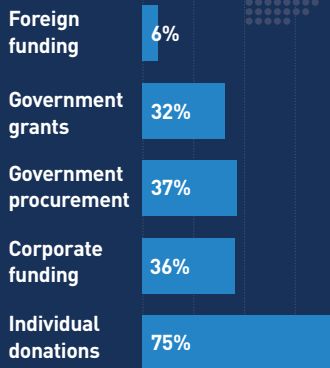


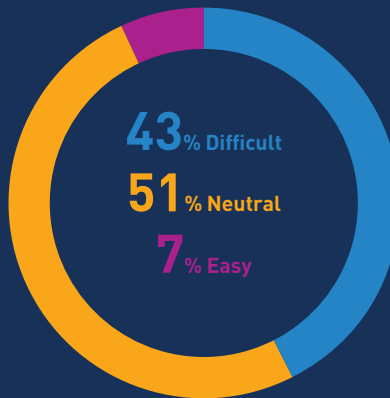
JAPAN

Prevalence of funding sources*

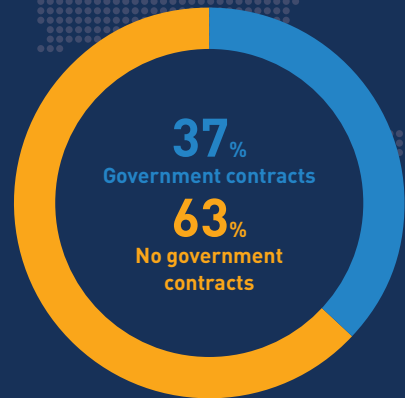


* % of SDOs receiving each type of funding

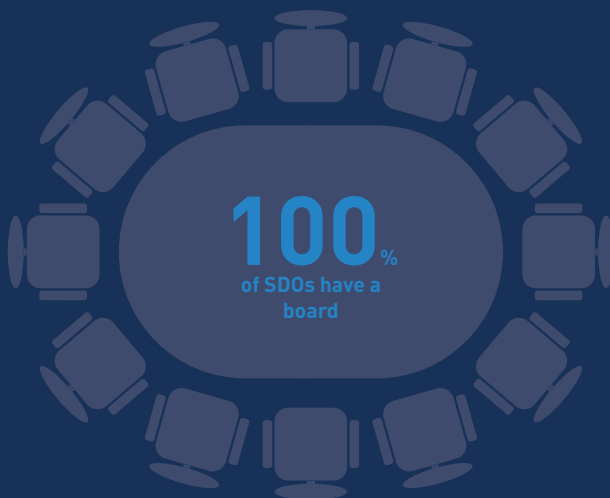
Ease of understanding laws



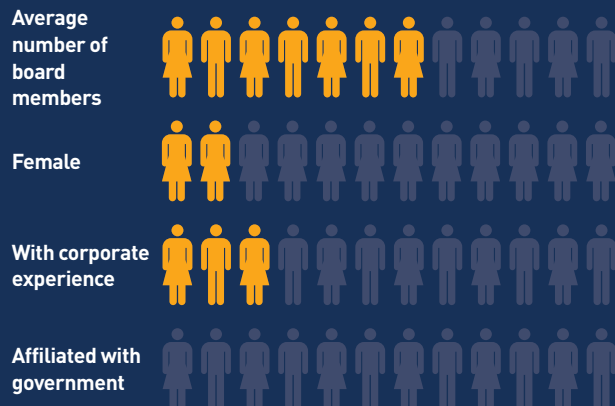
Proportion of SDOs with government procurement contracts



Trust in SDOs



SDO board composition



Percentage of SDOs working with corporate volunteers



Difficulty in recruiting skilled staff



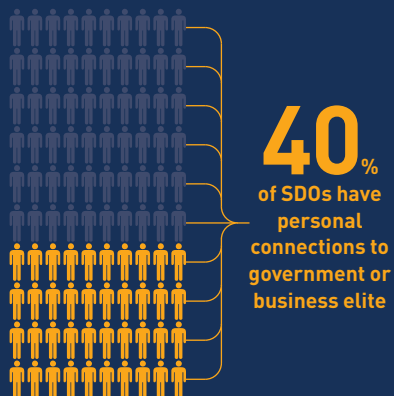
Individual charitable giving



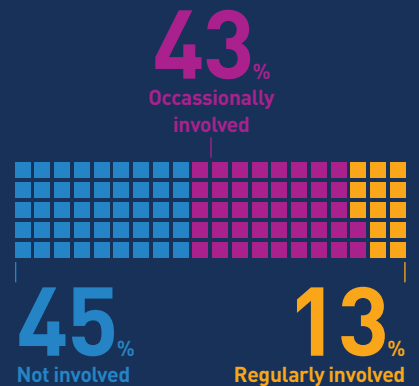
Top 2 reasons for low levels of individual giving



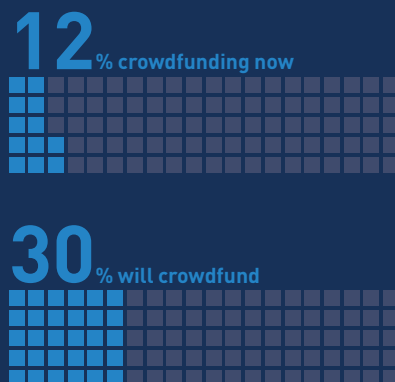
SDOs with connections to elite



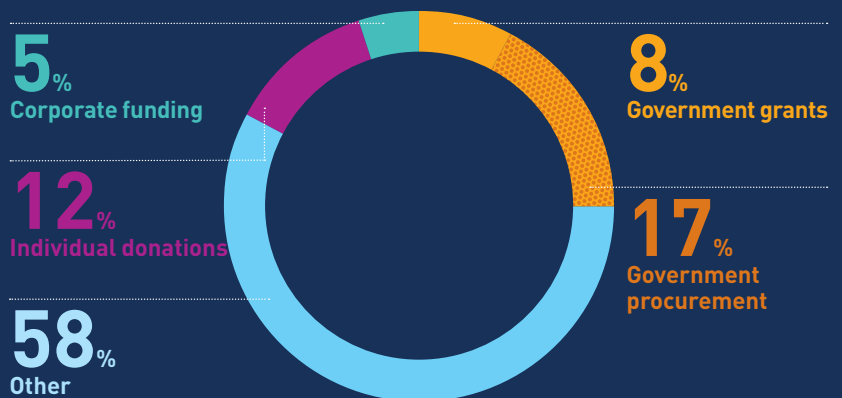
SDOs involved in policy consultations



Crowdfunding trends



Average SDO budget by funding source*



* Based on data from 2017-2018, the last complete financial cycle at the time of data collection.

JAPAN

Summary: A quarter century after the seminal 1995 Kobe (Great Hanshin-Awaji) Earthquake, reforms have made it easier for social delivery organizations (SDOs) to start up and operate in Japan. However, tax incentives and regulations remain complicated to grasp. While people, especially the younger generation, are engaging in greater numbers, there is room for the corporate sector to play a bigger role. As the government pushes for greater cross-sector collaboration and social enterprises enter the mix, Japan's social sector is set to evolve in new directions.

Doing Good Index 2018: Doing Well

Doing Good Index 2020: Doing Better ▼

Demographics¹

Population (2018): 126,529,100

GDP per capita, PPP (2018): \$42,797.50

Number of nonprofits (rounded to the nearest 100): 500,200^{2,3}

Estimated nonprofit-to-population ratio: 1 for every 253 people

% of GDP spent on health (2017): 10.94%

% of GDP spent on education (2016): 3.2%

Income status (World Bank classification): High income

Annual GDP growth (2018): 0.8%

Human Development Index rank (2019): 19

Growing needs, changing mindsets

While Japan has not witnessed any major shifts in legislation, funding or the political landscape in the past decade, two gradual yet significant transformations are taking place, which directly relate to the social sector.

First is the aging of Japanese society. As of 2019, Japan's "aging rate" is at 28%, compared to an Asian average of 8.6% and the global average of 9.1%.^{4,5} Not only does Japan have the highest percentage of seniors in the world, but its population of super-elderly (those aged 75 or above) is also growing rapidly.^{6,7,8} These demographic changes are having a big impact on policies, including immigration reforms to bring in care workers from other countries and the structures of pension funds. Japan's industrial composition is evolving as evidenced by a growing care industry. And finally, there is increasing devolution of the public care system to nonprofit and for-profit contractors.

The other transformation is the growing disparity among the haves and have-nots. Japan's middle class grew consistently from the end of World War II until the end of the Cold War, but the trend reversed thereafter.⁹ Today, Japan's relative poverty rate is 15.7%, which is higher than the OECD average.^{10,11,12} The last several years have seen rising child poverty and youth unemployment in Japan, and there is increasing urgency for policy measures and programs to address these problems.

These challenges are helping to bring about a transformation of mindset in Japanese society: more and more people are recognizing that the government alone cannot solve local, regional, national or global problems.

The state of the social sector in Japan

Various kinds of nonprofits operate in Japan, of which four main types are notable. Public interest corporations (PICs)—foundations or associations—

are the original nonprofits under tight scrutiny by the government. Social welfare corporations (SWCs), formed after World War II, specialize in care for the elderly, children and people with disabilities, among others. Specified nonprofit corporations (SNPCs), commonly known as nonprofit organizations (NPOs), came into existence under legislation lobbied by citizen-led groups and enacted in 1998, and are made up of service delivery and advocacy organizations. General nonprofit corporations (GNCs) were established after legal reforms in 2008 and these types of foundations or associations are the easiest to form.

In Japan, registration for SNPCs is free and takes around two months, which is cheaper and faster than the Asian average.¹³ Foreign and domestic funds can flow to nonprofits without hindrance. Accountability mechanisms and reporting requirements are in place. And Japan offers a 100% rate of tax deduction to individuals and companies on donations (albeit with a limit on income eligible for deduction). However, the proliferation of different nonprofit corporate forms contributes to the lack of a common identity for the social sector, making it appear fragmented.

Further complicating the sector is the rise of social enterprises, “hybrid” organizations that use business principles to meet social needs. Although most tend to

be registered as nonprofits, the line between nonprofits and companies is blurring with their rise.¹⁴

There is room for improvement in offering tax incentives for giving.

Like most Asian economies in the *Doing Good Index 2020*, Japan places limits on individual and corporate income eligible for tax deductions. Removing these limits could incentivize more giving.¹⁵

More importantly, it is difficult for all types of nonprofits to attain a “certification” status, which is necessary for tax deductions for donations to kick in. Of the approximately 51,000 SNPCs currently in existence, only around 1,000 are certified.¹⁶ On the donor side, it is not straightforward to claim a tax deduction, either. Individuals who have a single-source salary income (which applies to most full-time employees) do not usually complete their annual tax filing themselves as their employer does it for them.

Japanese regulations pertaining to the charitable sector are not easy to navigate.

According to the *Doing Good Index 2020* survey, most SDOs do not find regulations easy to understand and three-quarters believe that laws are not regularly enforced. With half of SDOs reporting no participation in policymaking (the highest proportion in Asia), there is room for a more consultative approach to setting new policies and making existing ones more accessible.

¹ Most of these statistics are from the World Bank or United Nations Development Programme (unless otherwise cited). For complete references please refer to the Bangladesh demographics box on page 52.

² Estimate from The Japan Association of Charitable Organizations (JACO) based on the following figures plus an estimate for unincorporated organizations (128,000): general nonprofit corporations (associations/foundations)—47,591; public interest corporations—9,470 (2016); specified nonprofit corporations—51,014 (2017); social welfare corporations—20,733 (2017); private school corporations—8,020 (2017); medical corporations—53,408 (2017); religious corporations—181,810 (2014).

³ Japan Association of Charitable Organizations (JACO). *Statistics of Japanese CSOs*. Retrieved April 16, 2020, from http://www.kohokyo.or.jp/english/eng_statistics.html

⁴ The “aging rate” is defined as the number of persons aged 65 or older divided by the total population.

⁵ United Nations, Department of Economic and Social Affairs, Population Division. (2017). *World Population Ageing 2019 – Highlights*. Retrieved from <https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Report.pdf>

⁶ In a table of 10 countries or areas with the most aged population, Japan has the highest old-age dependency ratio in the world, with 51% of its population aged 65 years or over, while the remaining countries/areas were 36-39% (See Table II.2. on page 15 of United Nations report.)

⁷ United Nations, Department of Economic and Social Affairs, Population Division. (2017). *World Population Ageing 2019 – Highlights*. (ST/ESA/SER.A/397) Retrieved from <https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Report.pdf>

⁸ Fujuyama, E. (2018, March 25). From elderly to “superelderly”: Japan wrestles with demography. *Nikkei Asian Review*. Retrieved from <https://asia.nikkei.com/Economy/From-elderly-to-superelderly-Japan-wrestles-with-demography>

⁹ Tetsuji, O. (2015, February 9). Lessons from the Japanese Miracle: Building the Foundations for a New Growth Paradigm. *Nippon.com*. Retrieved from <https://www.nippon.com/en/in-depth/a04003/lessons-from-the-japanese-miracle-building-the-foundations-for-a-new-growth-paradigm.html>

¹⁰ As defined by the Organisation for Economic Cooperation and Development (OECD), the poverty rate is the ratio of the number of people whose income falls below the poverty line, taken as half the median household income of the total population.

¹¹ Organisation for Economic Cooperation and Development (OECD). Poverty rate (indicator). Retrieved February 26, 2020, from <https://data.oecd.org/inequality/poverty-rate.htm>

¹² The other OECD country in Asia with a higher relative poverty rate is South Korea at 17.4%.

¹³ Unless otherwise indicated, SDO survey data mentioned in this brief are from the *Doing Good Index 2020*.

¹⁴ Centre for Asian Philanthropy and Society (CAPS). (2019). *Business for Good: Maximizing the Value of Social Enterprises in Asia*. Of the 107 Japanese social enterprises surveyed, 69% were nonprofit organizations.

¹⁵ Singapore and Vietnam are the only *Doing Good Index 2020* economies that do not place a limit on tax deductions.

¹⁶ Presentation shared with CAPS by Japan NPO Center (JNPOC).

A progressive new law was passed in 2018 that allows for dormant deposits in bank accounts to be spent on social purposes.¹⁷

Under the law, funds released from dormant accounts can be given as loans or grants to provide support for children and youths, disadvantaged people and those with disabilities, and for community development. Japanese lawmakers estimate that more than ¥70 billion (US\$650 million) in bank accounts become dormant each year.¹⁸ Of this, ¥50–60 billion (US\$460–550 million) could be distributed to the social sector annually if and when the law is fully operational after a five-year trial.¹⁹ In 2019, the annual disbursement of dormant funds to the social sector was about ¥3 billion (US\$28 million).²⁰

Nonprofits are increasingly being called upon to provide more social services on behalf of government.

37% of surveyed SDOs in Japan—compared to an Asia average of 26%—have received government contracts to provide social services at the direction of government agencies. Services for the elderly especially are in high demand.²¹ The government’s reforms to long-term insurance care in 2013 mean that community-based care has been devolved to the municipal level, pushing procurement opportunities to the local level.²²

The role of the corporate sector

Japanese society expects the private sector to contribute to meeting social needs, alongside nonprofits and government. However, corporate engagement in Japan lags behind the rest of Asia. On average, only 5% of a surveyed SDO’s budget comes from corporates, compared to the Asia average of 15%. Of those SDOs who work with volunteers, only

16% receive volunteers from corporates—the lowest in Asia. Japanese corporations are moving towards more direct involvement in meeting social needs, but not necessarily through nonprofits. Thus, financial support and volunteering for nonprofits alone may not be appropriate indicators for the corporate sector’s contribution to solving social issues.

The nature of corporate engagement with the social sector is changing. The corporate-nonprofit relationship is shifting from traditional philanthropy to a “new economy” approach, which is focused less on working with nonprofits to do good and more on using corporate resources to achieve tangible Sustainable Development Goals (SDGs)-related outcomes. An example of traditional engagement is the Japan Business Federation’s (Keidanren’s) One-Percent Club, set up in 1989 to encourage members to donate 1% of their recurring profits or disposable income to social causes each year.²³ The new approach is exemplified by the Japan Association of New Economy (Shinkeiren), an association of corporations and private businesses that is endeavouring to promote venture philanthropy and impact investing in Japan.²⁴

There is pressure on the corporate sector to do more. The advent of the SDGs in 2015 precipitated a broad call to action for the corporate sector to join others in creating a more sustainable society. Corporations in Japan are beginning to talk about ESG (environment, social and governance) investment, the triple bottom line, and a move from CSR (corporate social responsibility) to CSV (creating shared value). There is mounting pressure for the corporate sector to produce social and environmental value as well as economic value for society.

The world is not sustainable unless we act with

¹⁷ *The Act on Utilizations of Funds Related to Dormant Deposits to Promote Public Interest Activities by the Private Sector.* [2016]. Act No. 101 (Japan). Retrieved from http://www.japaneselawtranslation.go.jp/law/detail_main?re=&vm=02&id=2992

¹⁸ Nippon.com. [2019, January 8]. Use of Dormant Deposit for Public Interest Starts in Japan. *Nippon.com*. Retrieved from <https://www.nippon.com/en/news/yji2019010700680/use-of-dormant-deposits-for-public-interest-starts-in-japan.html>

¹⁹ The Japan Times. [2017, January 28]. Making use of dormant accounts. *The Japan Times*. Retrieved from <https://www.japantimes.co.jp/opinion/2017/01/28/editorials/making-use-dormant-accounts/#.XkKkQTEzY2w>

²⁰ British Columbia Unclaimed Property Society. *An International Perspective on Using Dormant Assets to Fund Social Programs*. Retrieved March 3, 2020, from <https://unclaimedpropertybc.ca/an-international-perspective-on-using-dormant-assets-to-fund-social-programs/>

²¹ Japan NPO Center [JNPOC]. *Overview of Civic Activities and “NPOs” in Japan*. Retrieved March 11, 2020, from <https://www.jnpoc.ne.jp/en/nonprofits-in-japan/overview/>

²² Centre for Asian Philanthropy and Society [CAPS]. [2015]. *The Silver Lining—Sawayaka Well-being Foundation: Volunteers for Elderly Care in Japan*. Produced for the Japan Association for Charitable Organizations (JACO). Retrieved from <http://caps.org/our-research/the-silver-lining/>

²³ Indiana University Lilly Family School of Philanthropy. [2018]. *Global Philanthropy Environment Index—Country Report 2018: Japan*. Retrieved from <https://globalindices.iupui.edu/environment/regions/eastern-asia/japan.html>

²⁴ Ibid.

scale and impact. Size and speed matter, as we can see with climate change. The corporate sector, especially big multinational corporations, can play a huge role by bringing sizeable financial and human resources to the table. In addition, their capacity to innovate is seen by many as an advantage over the government which is often slow to move.

Trends to watch

Individual giving in Japan has room to grow. 88% of SDOs believe the level of individual giving is low, mainly because citizens' practice of donating to nonprofits is not yet entrenched. It is notable, though, that high-profile national events drive greater giving. Devastating natural disasters, including the 2011 Great East Japan Earthquake off Tōhoku, prompted increased individual and institutional giving. While approximately 30% of Japanese people reported that they made a monetary donation in 2009 and 2010, the percentage dramatically increased after the earthquake; 77% of people reported making a donation related to the Great East Japan Earthquake.²⁵

The government is signaling a greater need for cross-sector collaboration in its embrace of select SDGs. These are goals that revolve around the domestic (mostly non-metropolitan) issues of aging, depopulation of rural areas and regional economic revitalization.

A “chiho sosei” (local/regional renewal) paper issued by the Cabinet Secretariat in March 2019 illustrates how.²⁶ It lays out how the government considers using SDGs as a lever for revitalizing the Japanese economy and society. Key words include “public-private partnership,” “local SDG models,” and “creating best practices for a sustainable community.” The key actors mentioned to execute initiatives are local governments, the private sector with a focus on small and medium enterprises, educational and research institutions, and NPOs. Other government documents also support the perspective that NPOs

are not the only central agents in driving change.²⁷ What this portends for nonprofits on the whole remains to be seen.

Major events have been organized to promote philanthropy in Japan. “Giving December” was launched in 2015 as an annual campaign promoting a culture of giving. Activities have included a symposium, distribution of resources to educate the public about philanthropy and student-led charity events. Under the direction of Japan Fundraising Association, the number of partner organizations has increased from 122 at its launch to 563 in its fourth year.²⁸

2018 saw celebrations to mark the 20th anniversary of the NPO Law. In two decades, NPOs have become part of the everyday lexicon of Japanese people. Many social services cannot be delivered without the support of NPOs and other types of nonprofits.

At the same time, the anniversary also brought an opportunity for reflection. At a time when the boundary between nonprofit and for-profit is blurring and the responsibility to solve social issues is shared, nonprofits in Japan need to clearly communicate their unique strengths and areas of expertise. NPOs are not simply service providers, they also play a “political” role through advocacy, influencing policy, research and analysis, education and mobilization. The Japanese public is aware of what NPOs are. Now it is time for the public to explore the broad spectrum of contributions that nonprofits make to society and ask how each and every individual can participate.

²⁵ Indiana University Lilly Family School of Philanthropy. (2018). *Global Philanthropy Environment Index— Country Report 2018: Japan*. Retrieved from <https://globalindices.iupui.edu/environment/regions/eastern-asia/japan.html>

²⁶ Cabinet Secretariat. (2019). 地方創生に向けたSDGsの推進について [Promotion of SDGs for regional revitalization]. Official Website of the Prime Minister of Japan and His Cabinet. Retrieved from https://www.kantei.go.jp/jp/singi/tiiki/kankyo/pdf/sdgs_suishin.pdf

²⁷ Cabinet Secretariat. (2017). 地方創生をめぐる現状と課題 [Current situation and issues concerning regional revitalization]. Retrieved from http://www.soumu.go.jp/main_content/000573278.pdf

²⁸ Giving December. *About*. Retrieved March 11, 2020, from <http://giving12.jp>

A BRIEF HISTORY OF JAPANESE NONPROFITS

Organized Japanese philanthropy dates back to the seventh and eighth centuries when members of the affluent noble class and high-ranking monks established charitable projects and institutions under major Buddhist temples such as Tōdai-ji and Shitennō-ji. Subsequently, the provision of public goods and services was dominated by the authorities, leaving little room for civil society players to grow. As a result, the delivery of social services remained highly centralized through the Meiji Restoration of the late 19th century.²⁹

The 1896 Civil Code recognized the existence of private nonprofit activities by establishing a system for PICs. Still, applications for licenses for these corporations needed to be approved by a government agency, continuing the trend of the state being the driver for the delivery of social services.³⁰

After World War II, Japan experienced a proliferation of different “corporate” types of nonprofits, including private school corporations, social welfare corporations, religious corporations, and medical corporations, among others. Coupled with separate legislation and regulations related to cooperatives, the lack of common identity of the private/nonprofit sector is a by-product of the corporate structure of various nonprofit organizations.

The government’s and society’s attitudes toward the charitable sector changed after two devastating

earthquakes, in 1995 (Kobe) and 2011 (Tōhoku). The tragic event of the Kobe earthquake, in particular, served as a trigger to instill in people’s minds that the government alone cannot solve the multitude of social challenges and that citizens need to act, too. As civic groups provided aid and found solutions to problems that public officers were unable to deal with themselves, it became clear that such groups can play a complementary role to the government in service provision. This was especially important at a time when gaps in social services were surfacing in areas such as elderly care, education and homelessness. It also came at a time when, faced with the growing social service gaps, citizens and citizen groups had started to provide services themselves and had begun lobbying for a citizen-friendly regulatory framework for community-based, grassroots groups.

Because of these efforts and a change in the political landscape, the Law to Promote Specified Nonprofit Activities (NPO Law) was enacted in 1998 to facilitate new types of NPOs (formally called “specified nonprofit corporations” under the law). Tax exemption regulations, including procedures for claiming tax incentives, also started to develop. Further reforms implemented in 2008 made it easier to establish nonprofit corporations in Japan.^{31,32} A new class of nonprofits, general nonprofit corporations, was also established to make it easier for nonprofit groups to incorporate.³³

We wish to thank our partner, Japan NPO Center (JNPOC), for primary authorship of this profile.

²⁹ Shapiro, R. A., Mirchandani, M., & Jang, H. (2018). *Pragmatic Philanthropy: Asian Charity Explained*. Singapore: Palgrave.

³⁰ Ibid.

³¹ The 1896 Civil Code Article 34 was revised in 2008, and the Act on General Nonprofit Incorporated Associations and General Incorporated Foundations as well as the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundations also went into effect in 2008.

³² Indiana University Lilly Family School of Philanthropy. (2018). *Global Philanthropy Environment Index - Country Report 2018: Japan*. Retrieved from <https://globalindices.iupui.edu/environment/regions/eastern-asia/japan.html>

³³ Japan NPO Center (JNPOC). *Overview of Civic Activities and “NPOs” in Japan*. Retrieved March 11, 2020, from <https://www.jnpoc.ne.jp/en/nonprofits-in-japan/overview/>