

SDG 10 – How Social Finance can Address Inequality in Japan

Japan faces challenges in achieving the UN's Sustainable Development Goal 10: Reduced Inequalities, but sustainable finance can play a pivotal role in tackling the problem of income disparities among the elderly and single-parent households.

- Japan has the second highest elderly poverty rate in the G7 amid a declining birthrate and ageing population
- Social Bonds are a useful tool to tackle inequality
- Enhanced corporate disclosure and institutional investor engagement is vital

More than six years have passed since the Sustainable Development Goals (SDGs) were adopted by all United Nations Member States, at the heart of which is a common objective to end inequality and foster a “no one left behind” global growth story.

The Bertelsmann Foundation, which publishes updates on SDG progress, has noted that Japan needs to accelerate efforts to meet the goals, in particular Goal 10 – aimed at reducing inequalities within and among countries including across politics, institutions, taxation and finance.

Chart 1. The Bertelsmann Foundation's Indicators for Determining the Status of Achievement of SDG 10

Indicator	Description
Gini Coefficient	An indicator of income equality developed by Italian statistician Corrado Gini. In the distribution of income from zero to one, how disproportionate they are compared to when they are distributed completely equally.
Parma Ratio	The index was developed based on the work of Chilean economist José Gabriel Palma. The figure compares the gross income of the bottom 40% of the income distribution with that of the top 10%. A figure above 1.0 is greater for the top 10%, and a figure below 1.0 is smaller for the top 10%.
Elderly Poverty Rate	Percentage of people aged 66 and over whose income falls below the poverty line (half of the median household income of the population).

Source: Nomura Institute of Capital Markets Research.

NO LONGER A 'ONE SIZE FITS ALL' SOLUTION

In the case of Japan, a multi-faceted approach is required to meet this goal. Both central and local governments are playing an important role in combatting inequality, but a lack of public funds means more needs to be done. As the country's birthrate continues to decline and the population ages, the burden of social security-related expenditures has become heavier year on year. Income redistribution through social security and taxation have contributed somewhat to redress inequality, but fiscal policy will continue to be an important facet in realigning balance between its people.

Japan's Gini coefficient – a measure of inequality - has remained largely unchanged since the 2000s, partly due to the income redistribution tactics of successive governments, even in the face of factors such as an ageing of the population and an increase in the share of non-regular employment since the 1990s. However, Japan's elderly poverty rate is the second highest among G7 countries after the United States, particularly among those aged 76 and over and among women.

Chart 2. Gini Coefficient, Parma Ratio and Poverty Rate of the Elderly in G7 Countries

Country	Gini Coefficient	Parma Ratio	Elderly Poverty Rate					(Reference) Total Population
			Overall	Age Group		Gender		
				66-75 Years Old	76 Years of Age or Older	Male	Female	
Canada	0.301	1.09	12.3	10.2	10.2	9.3	15.0	11.6
France	0.292	1.08	4.4	4.0	4.9	3.3	5.2	8.4
Germany	0.289	1.05	9.1	9.6	8.8	7.6	10.4	9.8
Italy	0.330	1.26	11.3	10.4	12.2	8.1	13.7	14.2
Japan	0.288	1.28	20.0	16.4	23.9	16.4	22.8	15.7
United Kingdom	0.366	1.57	15.5	12.8	19.2	12.6	18.0	12.4
United States	0.395	1.81	23.1	19.7	28.3	19.6	25.9	17.8
Average	0.323	1.31	13.7	11.9	15.4	11.0	15.9	12.8

Notes:

- The figures are for 2019, excluding those described below. Gini coefficient, Parma ratio and elderly poverty rate for Germany and Italy, as well as Parma ratio and elderly poverty rate for Japan are figures of 2018. Elderly poverty rate for the United States is figure of 2017.
- The Gini coefficient is based on equivalent disposable income.

Source: Nomura Institute of Capital Markets Research based on the data by Organisation for Economic Co-operation and Development (OECD).

WHAT ROLE CAN SUSTAINABLE FINANCE PLAY?

Social and sustainability bonds raise funds for projects aimed at addressing environmental and social issues, contribute to achieving the SDGs. The Social Bond Principles (SBP), published by the International Capital Markets Association (ICMA), provide examples of business categories for social projects for which funds are used, and ICMA has separately mapped the relationship between each business category and the SDGs. According to this framework, the ability to achieve Goal 10 is intrinsically linked to “access to essential services” and “socioeconomic advancement and empowerment.”

Chart 3. Details of Social Bond Business Segments
 (“access to essential services” and “socioeconomic advancement and empowerment”)

The ICMA SBP business category	Details of the business segments of the ICMA SBP	Details of business segments in the Social Bond Guidelines additional example
Access to essential services	<ul style="list-style-type: none"> Health Education and vocational training Healthcare Financing and Financial Services 	<ul style="list-style-type: none"> Parenting support Long-term care support Welfare for aging populations Supporting access to essential services for aging populations ICT
Socioeconomic advancement and empowerment	<ul style="list-style-type: none"> Equitable access to and control over assets, services, resources and opportunities Equitable participation and integration into the market and society, including reduction of income inequality 	<ul style="list-style-type: none"> Promotion of Diversity Empowerment of Women Work-style reform Promotion of barrier-free access and universal design Preventive care

Source: Financial Services Agency of Japan, Social Bond Guidelines, October 2021.

In addition, the Social Bond Guidelines formulated by Japan’s Financial Services Agency in October 2021 further disseminate the government’s SDG action plan, while ensuring consistency with ICMA’s standards.

Japanese issuers across a wide range of sectors, including air transport, government agencies, railways, customer information management, and communications, are now demonstrating the relationship between the use of funds and SDGs through the issuance framework.

Even in cases where this relationship is not always evident, there are likely to be multiple uses of funds that contribute to Goal 10. Although still not as many when compared to other SDGs, it's clear there is a role for social and sustainability bonds to play in achieving equality.

Institutional investor engagement is another important avenue to address SDG 10. The dialogue between institutional investors and investee companies is vital to improve sustainable growth.

SOCIAL IMPACT BONDS GAIN TRACTION

Historically, financial institutions have played the key role in combatting inequality through financing channels, but Public-Private Partnerships (PPP) using social bonds are another important avenue. Via this mechanism, governments can procure services and develop social infrastructure using private sector resources. Payment to the private entity involved is linked to the achievement of social impact. Social Impact Bonds were first seen in the United Kingdom in 2010 as an outcome of PPP, with a number of pilot projects taking place in Japan in 2015.

TOWARDS JAPAN ACHIEVING SDG 10

For Japan to achieve SDG 10 and contribute to the creation of a sustainable society, a meticulous approach is required to tackling inequality. More focus needs to be placed on enhanced corporate disclosures in order to better visualize inequality in and across countries. This, together with an increase in institutional investor engagement, will allow Japan to take further steps towards rectifying inequality.

SDG 10 promotes inclusion independent of age, gender, disability, race, ethnicity, origin, and religion. While various factors underpin inequality across and within countries, it is vital that Japan delivers tailored responses for each factor. Most importantly, Japan needs to tackle the problem of income disparity among the elderly and single-parent households.

Japan will be required to put in place innovative solutions, including securing private funds through enhanced tax measures, implementing public-private partnerships, issuing social impact bonds, and leveraging Sustainable Finance activities to achieve a more prosperous equal economy and society. Rates are likely to need to rise to attract demand. Governments should also seek to improve purchase limits in order to optimise bond sales. More generally, governments must ensure the transparency of the bond issuance process, and seek to create an ongoing impact from green projects.

DISCLAIMER

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