Mizuho Economic Outlook & Analysis

Expected measures for local governments to promote the SDGs
Coordination and incentives required to encourage SDG businesses

< Summary >

◆ In recent years, the Japanese government's promotion of the Sustainable Development Goals, or SDGs, has led to a growing awareness and initiatives among local governments, businesses, and other organizations.

◆ It is desirable for local governments to encourage companies to create new businesses engaged with the SDGs (SDG businesses) by establishing support organizations responsible for coordination and adjustment and by introducing subsidy programs.

◆ Local governments' active support for SDG businesses can provide companies with opportunities to acquire new sources of revenue in the future, with such support facilitating the development of goods and services that can contribute to addressing regional issues.

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1. Introduction

The Sustainable Development Goals, or SDGs, refer to the 17 global goals (**Chart 1**) outlined in the 2030 Agenda for Sustainable Development adopted by the United Nations in September 2015 for the world to achieve by 2030. Some goals such as "No Poverty" and "Zero Hunger" are mostly intended for developing countries, and others including "Gender Equality," "Industry, Innovation and Infrastructure," and "Climate Action" require the efforts of both developed and developing countries. The UN aims to create a society where "no one is left behind[1]" on the planet, with each member state solving economic, social, and environmental challenges in an integrated way through SDG initiatives.

In response to the UN's announcement, the Japanese government established the Sustainable Development Goals Promotion Headquarters (hereinafter the "SDGs Promotion Headquarters") composed of all Cabinet ministers in May 2016 to fully engage in attaining the SDGs at home and abroad. Recently in December 2019, the SDGs Promotion Headquarters revised the Sustainable Development Goals (SDGs) Implementation Guiding Principles, formulated about three years ago, to further strengthen its efforts toward realizing the SDGs. Meanwhile, a growing number of local governments and businesses are becoming aware of the issue and taking the initiative in fulfilling these goals. This report summarizes the efforts of the Japanese public and private sectors in pursuit of the SDGs and examines future policy challenges.

Chart 1: Sustainable Development Goals (SDGs) set by the United Nations

Source: United Nations Information Centre, *Guidelines for the use of the SDG logo, including the colour wheel and 17 icons* (August 2019).

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[1] The United Nations, *Transforming our world: the 2030 Agenda for Sustainable Development* (September 2015).

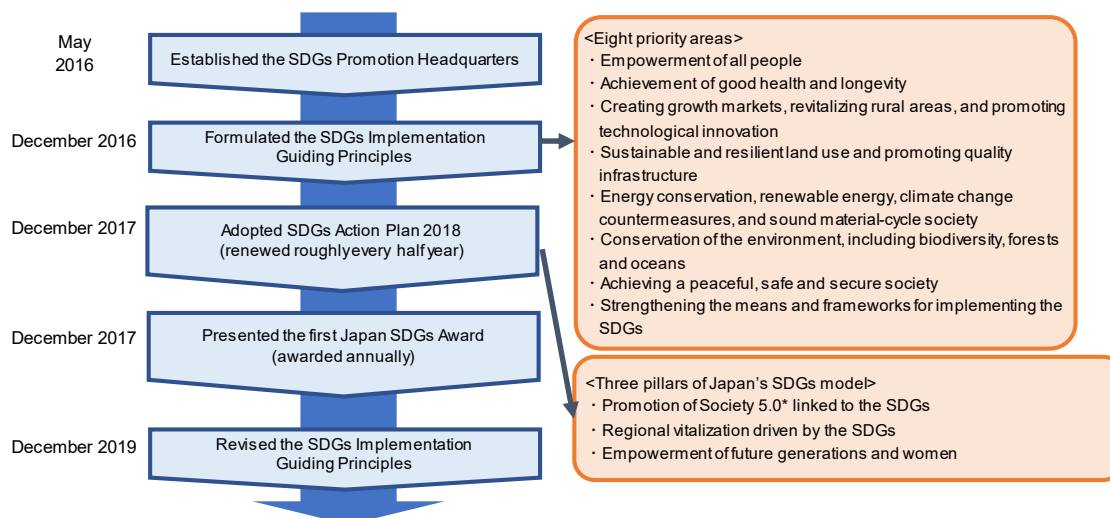**2. Moves by the national government to promote the SDGs**

First, let's look at the Japanese government's major moves to promote the SDGs so far (**Chart 2**). Japan began working toward these goals when the government set up the SDGs Promotion Headquarters in May 2016. The headquarters consists of the Prime Minister as chief, the Chief Cabinet Secretary and the Foreign Minister as deputy chiefs, and all other Cabinet ministers as members, with the aim of enhancing close cooperation among relevant ministries and agencies. In addition, the Sustainable Development Goals (SDGs) Promotion Roundtable Meeting was organized under the headquarters to exchange views with a wide range of stakeholders (experts, the private sector, international organizations and other entities). Based on meeting discussions, the headquarters adopted the SDGs Implementation Guiding Principles in December 2016 featuring eight priority areas.

Since 2017 the SDGs Promotion Headquarters has implemented a series of actions, including renewing its SDGs action plans roughly every half year to outline key initiatives based on the three pillars of Japan's SDGs model, as well as holding the "Japan SDGs Award" annually to honor businesses, organizations, and other entities for their excellent efforts to fulfill the SDGs.

In addition, the headquarters revised the SDGs Implementation Guiding Principles in December 2019 to present the government's plans to strengthen the monitoring and review of the implementation progress and to enhance public relations and awareness-raising activities. In addition, the revised principles highlighted the importance of encouraging local governments' involvement in the SDGs to address regional issues in public-private partnerships and raising awareness of the SDGs among small and medium-sized firms.

Each ministry has also introduced SDG-related measures based on the headquarters' policy, with notable examples including the Cabinet Office's selection of the "SDGs Future Cities" and "Local Government SDGs Model Projects." These programs are designed to select municipalities and prefectures proposing excellent SDG initiatives as SDGs Future Cities, while designating those with especially advanced initiatives as Local Government SDGs Model Projects and offering them financial support (up to 40 million yen in FY2018 and 30 million yen in FY2019 per project). With these programs planned for three years from FY2018, 60 municipalities and prefectures have been selected as SDGs Future Cities and 20 of them have qualified for financial support as Local Government SDGs Model Projects, as of FY2019 (**Reference Chart 1**).

Chart 2: Major moves by the government to promote the SDGs

May 2016	Established the SDGs Promotion Headquarters
December 2016	Formulated the SDGs Implementation Guiding Principles
December 2017	Adopted SDGs Action Plan 2018 (renewed roughly every half year)
December 2017	Presented the first Japan SDGs Award (awarded annually)
December 2019	Revised the SDGs Implementation Guiding Principles

<Eight priority areas>
・ Empowerment of all people
・ Achievement of good health and longevity
・ Creating growth markets, revitalizing rural areas, and promoting technological innovation
・ Sustainable and resilient land use and promoting quality infrastructure
・ Energy conservation, renewable energy, climate change countermeasures, and sound material-cycle society
・ Conservation of the environment, including biodiversity, forests and oceans
・ Achieving a peaceful, safe and secure society
・ Strengthening the means and frameworks for implementing the SDGs

<Three pillars of Japan's SDGs model>
・ Promotion of Society 5.0* linked to the SDGs
・ Regional vitalization driven by the SDGs
・ Empowerment of future generations and women

Note: Society 5.0 refers to a society that balances economic development and social problem-solving through technological innovation.
Source: Made by MHRI based upon published materials from the Sustainable Development Goals (SDGs) Promotion Headquarters.

3. Business and local governments' initiatives for the SDGs

With the national government actively promoting the SDGs, large companies appear to be increasingly involved in the SDGs. For reference, according to a 2017 survey conducted by the Council for Better Corporate Citizenship primarily on member firms of the Japan Business Federation (Keidanren), 30.5% responded that they were already engaged with the SDGs (**Chart 3**). The involvement of large companies is likely being driven by the growing global trend in recent years for institutional investors to value and select companies that respect ESG (Environment, Society and Governance) management. Numerous major corporations have been implementing the SDGs in Japan and overseas, as seen in the case of a company presented with the Japan SDGs Award for distributing affordable, high-quality toilets designed for developing countries. The survey also asked which goals among the SDGs were important for companies, and the results showed "Climate Action," "Gender Equality," "Affordable and Clean Energy," "Decent Work and Economic Growth," "Good Health and Well-Being," and "Responsible Consumption and Production."

Meanwhile, small and medium-sized enterprises' involvement in the SDGs remains limited. A survey of SMEs in the Kanto region conducted by the Ministry of Economy, Trade and Industry and a research agency in December 2018 revealed that a mere 1.2% said they were already engaged or taking action (**Chart 3**).

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Chart 3: Surveys on awareness and engagement of the SDGs

Subject	1. Keidanren member firms, etc.		2. SMEs (Kanto region)		3. Local governments		
Question item	Engaging with the SDGs		Awareness and engagement of the SDGs		Promotion of initiatives to achieve the SDGs		
Surveying organization	Council for Better Corporate Citizenship		Kanto Bureau of Economy, Trade and Industry (METI) & Japan Industrial Location Center		Cabinet Office Review Committee for the Evaluation and Study of Local Government SDGs Promotion		
Survey period	January-February 2017		December 2018			October-November 2018	October-November 2019
Responses (%)	Already engaged	30.5	Already engaged or taking action	1.2	Promoting	8.5	19.5
	Plan to engage	9.6			Plan to promote	7.0	22.4
	Under consideration	31.7	Considering engaging or taking action	0.8			
					Plan to consider promoting	35.8	43.4
	Not considering engaging	20.4	Know the content of the SDGs but not considering engaging	5.8	Not promoting and have no plans	48.7	14.7
	Do not know about SDGs	3.6	Do not know the details of the SDGs	8.0			
			Know nothing about SDGs	84.2			
	Other	3.6					
	No answer	0.6					
	Total	100.0	Total	100.0	Total	100.0	100.0

Source: Made by MHRI based upon the Council for Better Corporate Citizenship, *CBCC Survey on CSR* (July 2017), the Kanto Bureau of Economy, Trade and Industry (Ministry of Economy, Trade and Industry) and the Japan Industrial Location Center, *Survey on the Level of Awareness and Present Situation Surrounding the SDGs in Small and Medium-sized Enterprises* (December 2018), and the Cabinet Office Review Committee for the Evaluation and Study of Local Government SDGs Promotion, *National Questionnaire Survey on the SDGs* (December 2018 and December 2019).

On the other hand, a growing number of local governments are promoting the SDGs. A survey carried out by the Cabinet Office reported that the percentage of local governments promoting SDG initiatives increased from 8.5% in autumn 2018 to 19.5% in autumn 2019. Specifically, municipalities and a prefecture selected for the Local Government SDGs Model Projects have introduced programs primarily in the fields of environment, healthcare, transportation, and sightseeing (**Reference Chart 1**). Some local governments, such as Kanagawa Prefecture, Nagano Prefecture, and Maniwa City in Okayama Prefecture, have established schemes that register businesses working toward the SDGs in their regions (**Chart 4**). Other local governments are also expected to adopt concrete measures to promote the SDGs. A survey conducted on local governments in autumn 2019 showed that 22.4% of the respondents said they would promote the SDGs in the future, while 43.4% said they would consider promoting them. The Cabinet Office has set the target of raising the percentage of municipalities and prefectures involved in the SDGs to 30% in 2020.

Chart 4: Outline of major local governments' SDG certification schemes for businesses and other entities

Local government	Kanagawa Prefecture	Nagano Prefecture	Maniwa City, Okayama Prefecture
Name	Kanagawa SDGs Partner	Nagano Prefecture SDGs Promotion Company Registration System	Maniwa SDGs Partner
First registration	April 2019	July 2019	November 2018
Eligible for registration	Companies and other entities with their bases (headquarters and offices) located in the region		
Main registration requirements	· Implementing and publicizing SDG initiatives · Working with the prefecture to promote the SDGs · No excessive debts or unpaid prefectural taxes	· Establishing targets and initiatives for the SDGs · Completeing the SDG-related checklist set by the prefecture	· Submitting a manifesto describing the content of the initiatives · Complying with laws and regulations
Registration benefits	· External publicity by the prefecture (using badges, etc.) · Matching support with municipalities, businesses and universities	· Using registration logos for corporate public relations · Publicizing company names on the prefecture's webpage	· Allowing the posting of the city's SDG promotion banners on company webpages

Note: Local governments are listed in the order of the local government code of Japan.
Source: Made by MHRI based upon published materials from each local government.

4. Yokohama City addressing regional issues through cooperation among stakeholders led by a support organization

With momentum growing for local governments to work toward the SDGs as mentioned earlier, the city of Yokohama in Kanagawa Prefecture is one such municipality drawing attention as a pioneering case. The city established an SDG support organization to enhance cooperation among stakeholders in an effort to meet regional issues and create businesses engaged with the SDGs (SDG businesses), with these approaches expected to produce positive outcomes.

(1) Active environmental measures leading to the SDGs Future City

Yokohama is a major city with a population of approximately 3.74 million people and nearly 120,000 business establishments,[2] and is among the country's first municipalities to introduce measures to actively deal with environmental issues. The city was selected by the Cabinet Office as an "Eco-Model City" in July 2008 for progressively promoting environmental protection and as a "Future City" in December 2011 for adopting advanced approaches to global challenges, including the environment and super-aged society. The city's major achievements in the environmental field include meeting the target of reducing its waste amount in FY2010 by 30% from FY2001 (Yokohama G30 Plan) and launching the Yokohama Smart City Project aimed at optimizing the balance of local energy supply and demand in cooperation with energy-related companies, electric manufacturers, construction firms and other entities. The city has also worked to create better communities for the aged population in the suburbs by holding workshops and flea markets in partnership between the public and private sectors, including a railway company.

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[2] Population and number of business establishments are based on data in 2019 and 2016, respectively.

While further advancing these initiatives, Yokohama formulated a new city plan (Yokohama SDGs FutureCity Plan) with a view to contributing to the SDGs and applying for the "SDGs Future Cities" and "Local Government SDGs Model Projects" launched by the Cabinet Office in FY2018. The city was selected for both of these programs in June the same year.

(2) Establishment of the Yokohama SDGs Design Center

The establishment of the Yokohama SDGs Design Center (hereinafter "design center") plays a core role in the Yokohama SDGs FutureCity Plan. The design center began operations in January 2019 under the management of Yokohama City and five private firms and serves as a liaison among stakeholders, including businesses, universities and citizens, to solve regional issues.
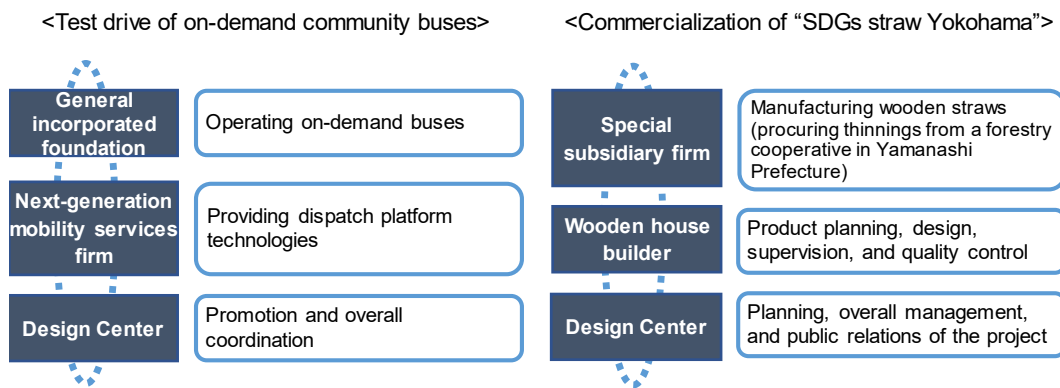
Among the major projects undertaken by the design center are the test drive of on-demand buses and the commercialization of "SDGs straw Yokohama" (wooden straws). The design center is in charge of coordinating and planning both projects (**Chart 5**).

On-demand bus services were tested in March, July, and August 2019 by a general incorporated foundation that operates community buses in the city's housing complex districts, using dispatch platforms provided by a company developing next-generation mobility services. Based on the results, projects are now underway to expand travel areas, connect services inside and outside the areas, and offer self-driving services in the future.

"SDGs straw Yokohama" were developed by a wooden house builder using thinnings from a water source forest in Yamanashi Prefecture owned by Yokohama City's Water Works Bureau, with the timber processed into final products by a special subsidiary firm (subsidiary established to promote employment of people with disabilities) in the city. Since launching the wooden straws in December 2019, the design center has been developing sales channels throughout the city's restaurants and accommodations as well as at Narita International Airport.

In addition, the design center established an environmental consortium in May 2019 in partnership with businesses and organizations aiming for zero-carbon emissions and has since engaged in various SDG promotion activities that include providing opportunities to exchange information in pursuit of exploring and promoting goods and services that help reduce greenhouse gases.

**Chart 5: Major stakeholders and their roles in the
Yokohama SDGs Design Center's projects**

<Test drive of on-demand community buses>   <Commercialization of "SDGs straw Yokohama">

General incorporated foundation	Operating on-demand buses
Next-generation mobility services firm	Providing dispatch platform technologies
Design Center	Promotion and overall coordination

Special subsidiary firm	Manufacturing wooden straws (procuring thinnings from a forestry cooperative in Yamanashi Prefecture)
Wooden house builder	Product planning, design, supervision, and quality control
Design Center	Planning, overall management, and public relations of the project

Note: In addition to the above stakeholders, other local governments, public corporations, civic groups, and other
organizations are actually involved in the projects.
Source: Made by MHRI based upon published materials from the city of Yokohama.

5.   SDG business support required from local and national governments

Yokohama's two projects mentioned in the previous section are especially notable for the municipality successfully supporting the creation of SDG businesses by connecting local stakeholders with firms capable of providing problem-solving technologies. The key advantages of companies capitalizing on the SDGs are believed to lie in (a) enhancing corporate image, (b) avoiding management risks, and (c) creating new business opportunities. Presently, most domestic firms' efforts are focused on developing a corporate structure associated with advantage (a) (e.g., promoting women's empowerment in the workplace or improving the work-life balance) and improving existing business practices involving advantage (b) (e.g., reducing carbon emissions in manufacturing processes or prioritizing the purchase of products with less impact on the environment). There appear to be few cases of advantage (c) related to creating SDG businesses, probably because of the difficulty for companies to independently create new businesses to solve social and environmental issues. But Yokohama's design center cooperates with local stakeholders to provide companies with the opportunity to demonstrate their technologies and knowhow for solutions, thereby supporting them to gain advantage (c). Looking at the above two projects, companies with solutions (a mobility services firm and a wooden house builder) seized the opportunity to commercialize their respective dispatch platform technology services and product design for wooden straws. Based on the demonstration test results, these companies will likely launch their business models initially in Yokohama and subsequently in other regions. Meanwhile, if the city's incorporated foundation and special subsidiary firm successfully put their on-demand bus and wooden straw businesses on track, it would help Yokohama revitalize its regional economies and overcome some of its social and environmental

issues.

In these ways, local governments' support for creating SDG businesses in coordination with companies and local stakeholders can bring potential benefits to both solution-providing firms and the community; it is therefore desirable that other local governments actively implement similar support measures. For local governments across the country to support SDG businesses in the future, developing coordination systems and strengthening incentives for companies involved in SDG businesses will be important. It will also be effective for the national government to support these local efforts (**Chart 6** on page 10).

(1) Developing coordination systems through the establishment of SDG support organizations and one-stop service centers

A concrete measure for local governments to develop coordination systems is the establishment of new SDG business support organizations and one-stop service centers. In the case of Yokohama, the design center was created as a new public-private coordination organization, but for smaller municipalities, setting up one-stop service centers within the municipality would be a more practical option. In either case, developing a cross-sectional cooperative structure within local governments is important to generate greater outcomes. Currently, many local governments are said to be rather inactive in coordinating between the industry-related section mainly in charge of economic or environmental issues and the public service-related section frequently dealing with social issues. But cross-sectional coordination is essential to attain the SDGs through integrated solutions to economic, social, and environmental issues. New organizations and one-stop service centers should function as coordination hubs that actively gather information on these issues as well as possible solutions that local companies may be able to offer. Then, they should find the best solution to solve each issue and adjust the roles of stakeholders. It is also necessary to conduct promotional activities to raise local firms' awareness of the SDGs.

(2) Strengthening incentives for businesses through promotional support and subsidy programs

In addition to offering opportunities to demonstrate new goods and services, local governments are expected to support companies engaged in SDG businesses through incentives that include promoting company efforts, awarding additional points for competitive public procurement bidding, and establishing subsidy programs. Of these incentives, promotional support and additional award points are relatively easy to adopt and are therefore suitable for encouraging companies to implement various SDG

measures (creation of SDG businesses, corporate structure development, improvement to existing businesses, etc.). Some local governments have already introduced public relations support for company efforts through registration schemes (**Chart 4**), and other municipalities and prefectures should consider implementing similar measures.

As for the establishment of subsidy programs, only local governments with a certain financial capacity would be eligible. In order to stave off financial pressure, these governments should narrow down the range of subsidies in terms of candidates (e.g., local companies engaged in SDG businesses) and duration (e.g., focus on the start-up stage would be reasonable). They should also establish SDG certification schemes with stricter requirements and screenings than the registration schemes and demand companies to be certified for receiving subsidies.

(3) National government's policy and budget support for local governments

While local governments need to play a major role in promoting companies' SDG businesses aimed at solving regional issues, the national government should also provide municipalities and prefectures with policy and budget support.

Specifically, to provide policy support it appears effective for the national government to present guidelines on registration and certification schemes as a base to implement incentive measures for companies. These guidelines can greatly save local governments' burden of discussing and designing their own schemes. Municipalities and prefectures can choose to follow the set guidelines and add further items in response to regional issues to make the work more efficient while maintaining a level of uniqueness in their schemes. The national government has already begun to consider the formulation of such guidelines, with early introduction expected.

In terms of budgetary support, the national government should establish a preferential quota for SDG businesses certified by local governments in the budget related to the SDGs for regional revitalization[3]. By doing so, it can offer financial support to local subsidy programs for SDG businesses. The use of an SDG-related budget that covers a wide range of fields will help companies set their SDG businesses on a growth path.

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[3] The SDG-related budget for regional revitalization in FY2019 is available on the following webpage (in Japanese):
https://www.kantei.go.jp/jp/singi/tiiki/kankyo/teian/sdgs_kanrenyosan/sdgs_kanrenyosan.html

Chart 6: Proposed measures to encourage the creation of SDG businesses

Entity	Initiative	Concrete measures	Comment
Local governments	Developing coordination systems	Establishing new organizations and one-stop service centers to support SDG businesses	Developing a cross-sectional cooperative structure as the key
		<Expected key roles> • Functioning as coordination hubs for related sections within local governments • Gathering information on regional issues and possible solutions that companies may be able to offer • Finding the best solution to solve each issue and adjusting the roles of stakeholders • Promotional activities to raise company awareness of the SDGs	
	Strengthening incentives	Supporting public relations for companies involved in various SDG initiatives and awarding additional points for competitive public procurement bidding	Additional points may be linked to registration schemes
		Creating subsidy programs for local companies engaged in SDG businesses	Appropriate to narrow down the range of subsidies in terms of candidates and duration
National government	Policy support for local governments	Presenting guidelines on the registration and certification schemes	The measure reduces local governments' burden of discussing and designing the systems
	Budgetary support for local governments	Setting up a preferential quota for SDG businesses in the SDG-related budget for regional revitalization (targeting locally-certified companies)	The measure acts as financial support to local subsidy programs

Source: Made by MHRI.

6. Conclusion

SDG businesses can serve as an opportunity for companies if local governments promote them by developing coordination systems and strengthening incentives, with the national government's policy and budgetary support. The development of SDG businesses as regional problem-solving tools has the potential to secure new sources of revenue in the future. If firms with technology solutions to regional issues work in close cooperation with local governments and stakeholders when developing SDG business prototypes, they would probably be able to develop better goods and services than working on their own. Improving prototypes and expanding new businesses in turn will bring about economies of scale, leading to a brisk boost in revenue. In the coming years, companies will be expected to look at these potential opportunities and actively propose their technology solutions to local governments.

Reference Chart 1: List of municipalities and prefectures selected as SDGs Future Cities and Local Government SDGs Model Projects

Municipalities/ Prefectures	SDGs Future City		Local Government SDGs Model Project	Major initiatives in the Local Government SDGs Model Project
	FY2018	FY2019		
Hokkaido	○			
Sapporo, Hokkaido	○			
Niseko, Hokkaido	○		○	Building environmentally friendly housing complexes
Shimokawa, Hokkaido	○		○	Seamless operations of the upstream-downstream forestry industry
Rikuzentakata, Iwate		○		
Higashi Matsushima, Miyagi	○			
Semboku, Akita	○			
Iide, Yamagata	○			
Koriyama, Fukushima		○	○	Analysis of medical care across wide areas using open data
Tsukuba, Ibaraki	○			
Utsunomiya, Tochigi		○		
Minakami, Gunma		○		
Saitama, Saitama		○		
Hino, Tokyo		○		
Kanagawa	○		○	Creating the "ME-BYO" industry aimed at extending healthy life expectancy and promoting a data health program
Yokohama, Kanagawa	○		○	Establishing the SDGs Design Center to deepen interactions among stakeholders
Kawasaki, Kanagawa		○		
Kamakura, Kanagawa	○		○	Utilizing historic buildings
Odawara, Kanagawa		○	○	"Odawara Citizen School" as the core of ICT coordination and demonstration studies
Mitsuke, Niigata		○	○	Creating a walkable community
Toyama		○		
Toyama, Toyama	○		○	Development of an LRT (next-generation light rail transit) system and autonomous distributed energy infrastructure
Nanto, Toyama		○	○	Connecting culture and education and rebuilding residents' autonomy
Komatsu, Ishikawa		○		
Suzu, Ishikawa	○			
Hakusan, Ishikawa	○			
Sabae, Fukui		○	○	Promoting women's empowerment with activities based in "Yume Miraikan Sabae"
Nagano	○			
Shizuoka, Shizuoka	○			
Hamamatsu, Shizuoka	○			
Aichi		○		
Nagoya, Aichi		○		
Toyohashi, Aichi		○		
Toyota, Aichi	○			
Shima, Mie	○			
Shiga		○		
Maizuru, Kyoto		○	○	Demonstration experiments on mutual transportation cooperation services
Sakai, Osaka	○			
Ikoma, Nara		○		
Sango, Nara		○		
Koryo, Nara		○		
Totsukawa, Nara	○			
Wakayama, Wakayama		○		
Chizu, Tottori		○		
Nichinan, Tottori		○		
Okayama, Okayama	○			
Maniwa, Okayama	○		○	Promoting wood biomass power generation
Nishiawakura, Okayama		○	○	Collective forest management with a trust business
Hiroshima	○			
Ube, Yamaguchi	○			
Kamikatsu, Tokushima	○			
Kitakyushu, Fukuoka	○		○	Promoting low-carbon energy
Omuta, Fukuoka		○		
Fukutsu, Fukuoka		○		
Iki, Nagasaki	○		○	Promoting smart agriculture
Kumamoto, Kumamoto		○	○	Power supply with electric vehicles (EV)
Oguni, Kumamoto	○		○	Multifaceted use of geothermal resources
Osaki, Kagoshima		○	○	Social impact bond survey in the waste sector
Tokunoshima, Kagoshima		○		
Onna, Okinawa		○	○	Realizing sustainable tourism

Note: Dark blue and light blue refer to prefectures and municipalities, respectively. They are listed in the order of the local government code of Japan.

Source: Made by MHRI based upon the Cabinet Office, *Selection of the SDGs Future Cities and Local Government SDGs Model Projects* (FY2018 and FY2019).