

ASSESSMENT

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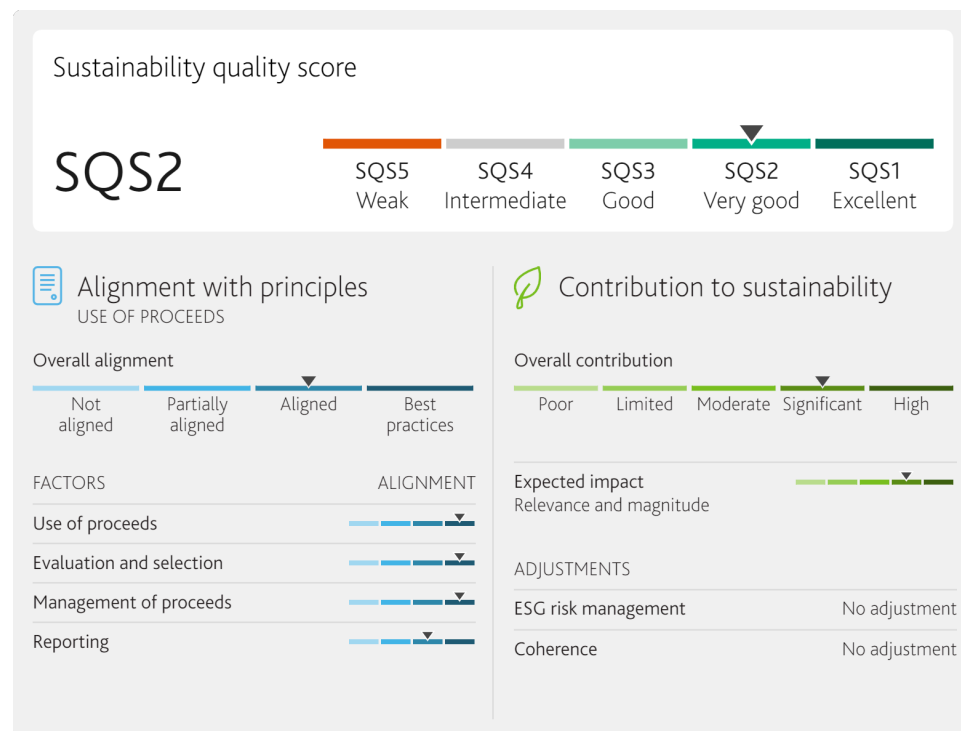
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Japan Student Services Organization

Second Party Opinion – Social Bond (71st) Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 sustainability quality score (very good) to Japan Student Services Organization's (JASSO) 71st social bond to be issued in June 2023. JASSO has established its use-of-proceeds framework to finance a single eligible social project category; scholarship loans. The issuance is aligned with the four core components of the International Capital Market Association's (ICMA) Social Bond Principles 2021 (including June 2022, Appendix 1), and the framework demonstrates a significant contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of JASSO's 71st social bond, including the framework's alignment with the ICMA's Social Bond Principles (SBP) 2021 (including June 2022, Appendix 1). The agency plans to issue use-of-proceeds social bonds to finance a single eligible social project category – scholarship loans – as outlined in Appendix 2 of this report.

Our assessment is based on the latest version of JASSO's framework as of January 2023, and our opinion reflects our point-in-time assessment of the details in this version of the framework, and other public and non-public information provided by the agency.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

Issuer profile

Japan Student Services Organization (JASSO) is a Japanese independent administrative agency, overseen by the Minister of Education, Culture, Sports, Science and Technology (MEXT).

Founded in 2004 under the Act on the Japan Student Services Organization, Independent Administrative Agency, JASSO provides scholarship grants, loans and various student services to help ensure equal educational opportunities.

The agency is the largest scholarship provider in Japan, with total funding of more than JPY1.1 trillion for the fiscal year ending in March 2022 (fiscal 2021). One in every 3.1 postsecondary students received scholarship loans from JASSO in fiscal year 2021.

Strengths

- » Financing of a widely-used scholarship loan program that facilitates equal access to higher education in Japan
- » Clearly defined eligibility criteria for the use of proceeds enshrined in law
- » Well-established process for evaluating and selecting eligible students, including screening by personality, academic ability and family financial status
- » Strong internal management system, including an established process for repayment deferrals and official complaint-handling policies and committees
- » Well-established process for the management of proceeds, including use of a subaccount and allocation of funds within two days of issuance

Challenges

- » The already high penetration of tertiary education in Japan, compared with global peers, weighs on the expected contribution to sustainability. Furthermore, Category 2 scholarship loans target higher-income households compared with other scholarship programs provided by JASSO.
- » There is no commitment to undertake verification or an independent review of the allocation, or impact reporting.

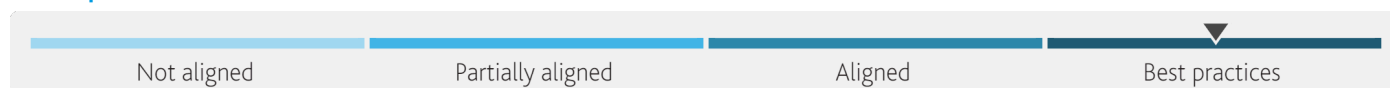
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Alignment with principles

JASSO's 71st social bond is aligned with the four core components of the ICMA's Social Bond Principles 2021 (including June 2022, Appendix 1):

- Green Bond Principles (GBP)
- Social Bond Principles (SBP)
- Green Loan Principles (GLP)
- Social Loan Principles (SLP)
- Sustainability-Linked Bond Principles (SLBP)
- Sustainability Linked Loan Principles (SLLP)

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

The agency plans to allocate the proceeds to Category 2 scholarship loans, which are interest-bearing scholarship loans provided to students from low- and middle-income households in Japan. The eligibility criteria, including income and academic requirements, are clearly defined and publicly available. For example, the issuer details on its website an approximate income threshold of JPY10.09 million (for a household of three) to qualify, a repayment duration of up to 20 years and a maximum monthly undergraduate loan value of JPY120,000.

Clarity of the environmental or social objectives – BEST PRACTICES

Through the Category 2 scholarship loans, the agency plans to help ensure equal access to education. The project category is relevant to JASSO's social mandate and is coherent with international standards, particularly the UN Sustainable Development Goals (SDGs), specifically SDG4 (Quality education).

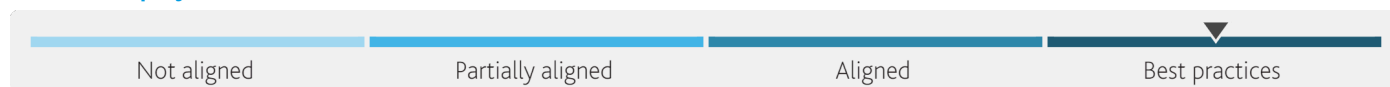
Clarity of the expected benefits – BEST PRACTICES

The expected benefit — that financially challenged students complete their higher education — is relevant to the project. In addition, the benefits are measurable and the agency will report the percentage of scholarship recipients among the applicants who meet the criteria. Other reported data will include total number of recipients, total amount of annual lending and the collection rate of repayments per year. In addition, the issuer commits to not direct the proceeds to the refinancing of existing loans.

Best practices identified

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of process for defining eligible projects – BEST PRACTICES

The applicable laws and regulations, and the operational procedure, which are publicly available, define the candidate selection process. The procedure also details the roles and responsibilities for candidate selection, which involves stakeholders with relevant expertise – including the principals of educational institutions – and requires the process to be documented. The continued compliance of the recipients with the defined eligibility criteria will be monitored annually and corrective actions will be taken, if necessary.

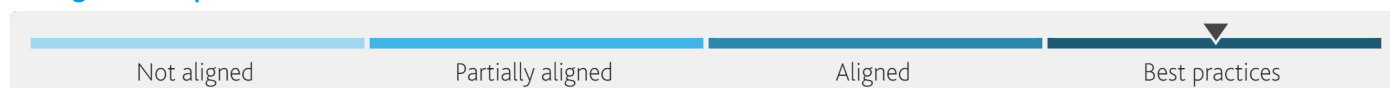
Environmental and social risk mitigation process – BEST PRACTICES

Because JASSO is a government-related agency, its environmental and social risk mitigation process is well-established and transparently disclosed. Strengths include an established process for repayment deferrals and official complaint-handling policies and committees.

Best practices identified

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake implement mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material Significant environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » Environmental, social and governance (ESG) controversies are monitored

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

The net proceeds of the bond will be placed in a segregated account and will be fully disbursed to the scholarship recipients no more than two days after issuance.

Because this is a government-aided program, it is highly unlikely that the program will be canceled or postponed without amendments in the law. In case the allocation is delayed because of unforeseeable reasons, the agency commits to process the disbursement to the students as soon as possible.

Management of unallocated proceeds – BEST PRACTICES

Because the bond proceeds will be disbursed to students within a window of two days, it is highly unlikely that the unallocated proceeds would require temporary placement or that such proceeds would need to be reallocated to other eligible projects.

Best practices identified

- » Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- » Short allocation period, for example typically less than 24 months

Reporting**Transparency of reporting – ALIGNED**

The agency will report annually on the use of the proceeds and their impact, and this reporting will be made publicly available on the agency's website. It has already published its [impact reporting](#) for fiscal 2021 and commits to continue such reporting going forward. The reporting will include details on the allocation, the number of Category 2 scholarship loan recipients and the total disbursed amount. In addition, JASSO is legally required to submit its annual report to MEXT, which contains similar impact and allocation reporting indicators, and publish it thereafter.

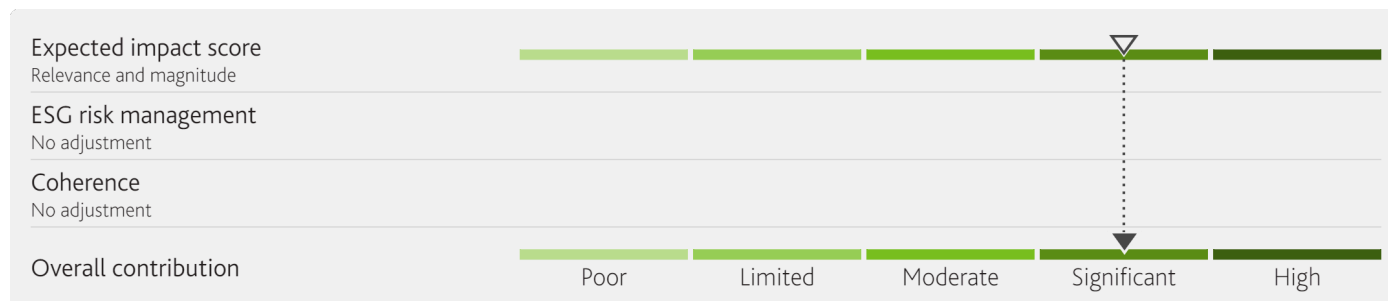
The reporting indicators selected are clear, relevant and exhaustive. However, the agency does not commit to the verification or an independent review of the tracking method, allocation of funds and reported benefits.

Best practices identified

- » Reporting until full bond maturity or loan payback
- » Reporting covers material significant developments and issues related to the projects or assets
- » Reporting on the allocation of proceeds and the benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum

Contribution to sustainability

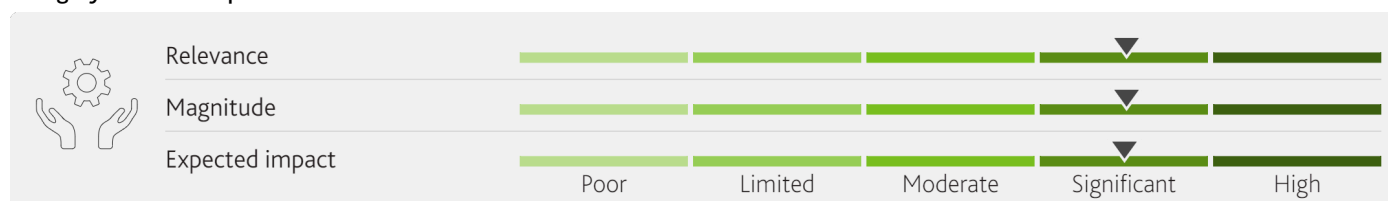
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the eligible project category of scholarship loans on JASSO's social objective is significant. A detailed assessment of the project category is provided below.

Category 2 Scholarship Loans



The project category exhibits significant relevance overall. The scholarship loan program is very important to the agency and to Japan because of the financial burden of higher education. This is also reflected in the financing gap between public and private spending on education in Japan, which is significantly higher than in most advanced economies globally. At the same time, the country's high penetration rate of tertiary education demonstrates that the need for scholarship programs is largely realized in Japan, mostly by JASSO. According to the [Sustainable Development Report 2022](#), the percentage of the Japanese population, aged 25 to 34, who have completed tertiary education is 61.5%, which compares favorably with global peers such as the UK (55.8%), the US (51.9%), France (49.5%) and Germany (34.9%).

The category is likely to have a significant magnitude because Category 2 scholarship loans are likely to lower the financial hurdle of accessing, continuing and completing higher education by providing affordable scholarship loans to candidates from low- and middle-income households. Unlike conventional scholarship loans, the loans are affordable and accessible because they have a long tenure of up to 20 years; the interest rate is capped at 3%, while the actual interest rates for students that graduated in March 2022 are much lower at 0.040%-0.569%; and the repayment capability of the borrower is not assessed. However, the students will continue to carry the burden of repayment in the future because of the interest-bearing nature of the loans, unlike scholarship grants, which require no repayment, and Category 1 scholarship loans, which are interest free.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. The category is likely to have limited negative externalities, with the agency benefiting from strong ESG management policies as a government-related issuer. Furthermore, the interest rate on loans is capped at 3% and repayment deferral options are available to prevent over-indebtedness.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score because the eligible project category is coherent with JASSO's sustainability objective. The agency was established by the Japanese government solely to support students, including providing Category 2 scholarship loans.

Appendix 1 - Mapping eligible categories to the UN SDGs

The eligible category included in JASSO's framework is likely to contribute to the UN SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 4: Quality Education	Category 2 Scholarship Loans	4.3: Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education

The UN SDG mapping in this SPO takes into consideration the eligible project categories (or key performance indicators) and associated sustainability objectives/benefits documented in the agency's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of eligible category in JASSO's framework

Eligible Category	Description	Sustainability Objectives	Impact Reporting Metrics
Category 2 Scholarship Loans	Interest bearing scholarship loans that have to be repaid <ul style="list-style-type: none"> - Interest rate is capped at 3% - Maximum repayment period of 20 years - Monthly disbursement of up to ¥120,000 for a undergraduate student 	Equal access to education	<ul style="list-style-type: none"> - Total number of recipients of the "Category 2 Scholarship Loans" per year. - Total amount of lending through the "Category 2 Scholarship Loans" per year. - Percentage of recipients of the scholarship among the applicant who meet the criteria (in %). - Collection rate of repayment concerning the "Category 2 Scholarship Loans" per year (in %)

Moody's related publications

Second Party Opinion analytical framework:

» [Framework to Provide Second Party Opinions on Sustainable Debt](#), October 2022

Topic page:

» [ESG Credit and Sustainable Finance](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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