

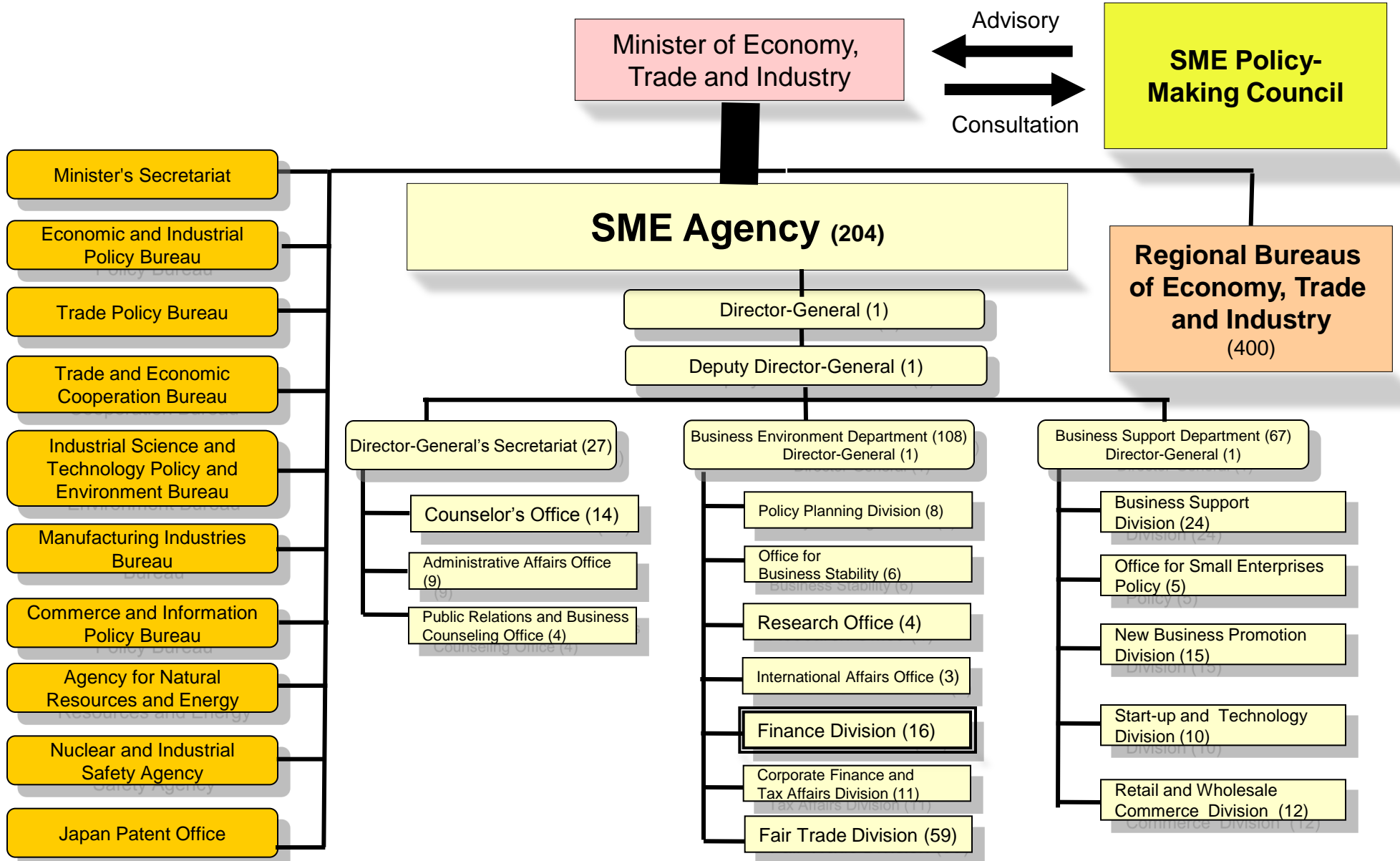
Financial Policy for SMEs in Japan

Takatoshi Miura
Director
Finance Division
Small and Medium Enterprise Agency

October 2012

1.Support System for SMEs

(Unit: number of people)



2. Transition of SME Policies

The basic philosophy of SME policies has been reexamined in line with the requirements of the times. Over the years, many policies have been developed and improved, including financial policies, business promotion policies and organizational policies.

Postwar reconstruction (1945~) Rapid economic growth (1955~) Stable growth (1970~) Transition stage (1989~) Present

Basic Philosophy

Prevention of economic centralization, fostering of sound SMEs

Establishment of the SME Agency (1948)
Antimonopoly Act (1947)

Dual structure: Correction of disparities between LEs and SMEs

Enactment of the SME Basic Act (1963)

Support for willing and competent SMEs

Amendment of the SME Basic Act (1999)

Establishment of government-affiliated financial institutions

Establishment of Shoko Chukin Bank (1936)
Establishment of National Life Finance Corporation (1949),
Japan Finance Corporation for Small and Medium Enterprises (1953)
SME Credit Insurance Act (1950)
Credit Guarantee Corporation Act (1953)

Resolution of the shortage of funds and development of policy finance

Reform of policy finance: Limitation of function and consolidation of institutions

Japan Finance Corporation Act (2007)
Shoko Chukin Bank Company Limited Act (2007)

Financial policies

3. Public SME Financing

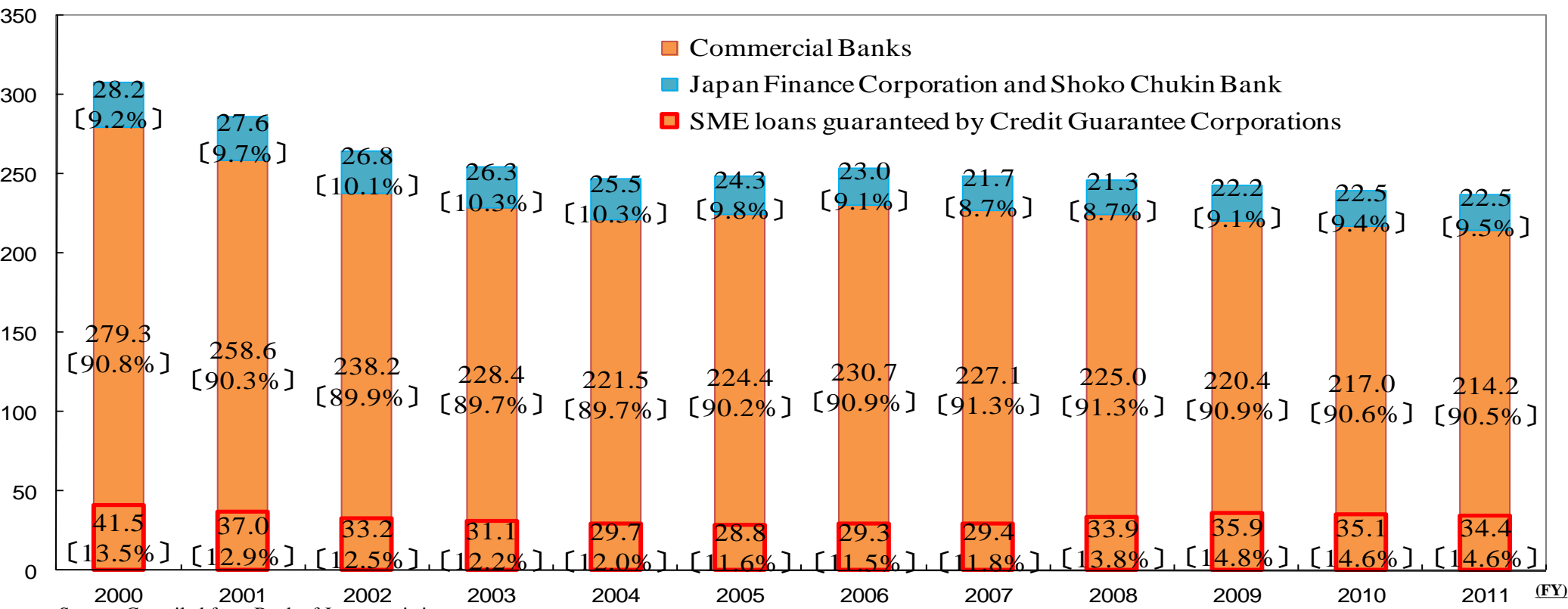
- Since SMEs are often lacking in assets with a weak financial base and have difficulty in procuring capital from public markets, securing the smooth provision of funds is one of their most critical issues.
- The government of Japan, therefore, established “government-affiliated financial institutions” and put in place frameworks for providing low, fixed-interest and long-term (maximum 20 years) funds for SMEs.
- In order to enhance the smooth flow of funds to SMEs, the government made a decision to utilize funds of private sector financial institutions and put in place a “credit enhancement system” for guaranteeing loans from private sector financial institutions to SMEs and making payments in subrogation in cases where repayment was not made.

4. Overview of SME Financing

- Government-affiliated financial institutions provide funds for SMEs as a framework which complements private sector financial institutions. Currently, their outstanding balance of loans to SMEs stands at ¥ 23 trillion, i.e. about 10% of the total outstanding balance of ¥ 237 trillion in loans to SMEs, and their outstanding balance of credit guarantees on loans amounts to ¥ 34 trillion, which is about 15% of total credit guarantees on loans.

Outstanding Lending to SMEs by Commercial Banks and Government-Affiliated Financial Institutions

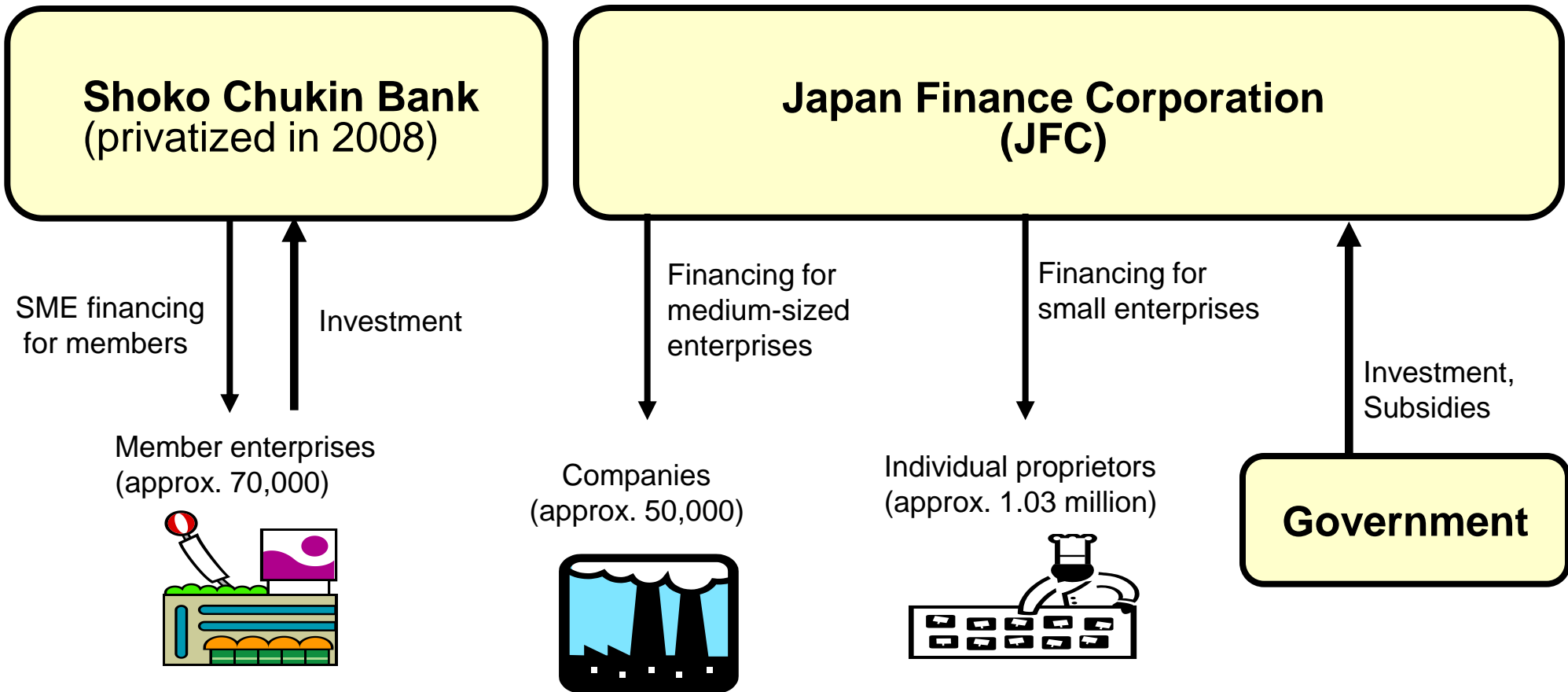
(Trillion yen)



Source: Compiled from Bank of Japan statistics.

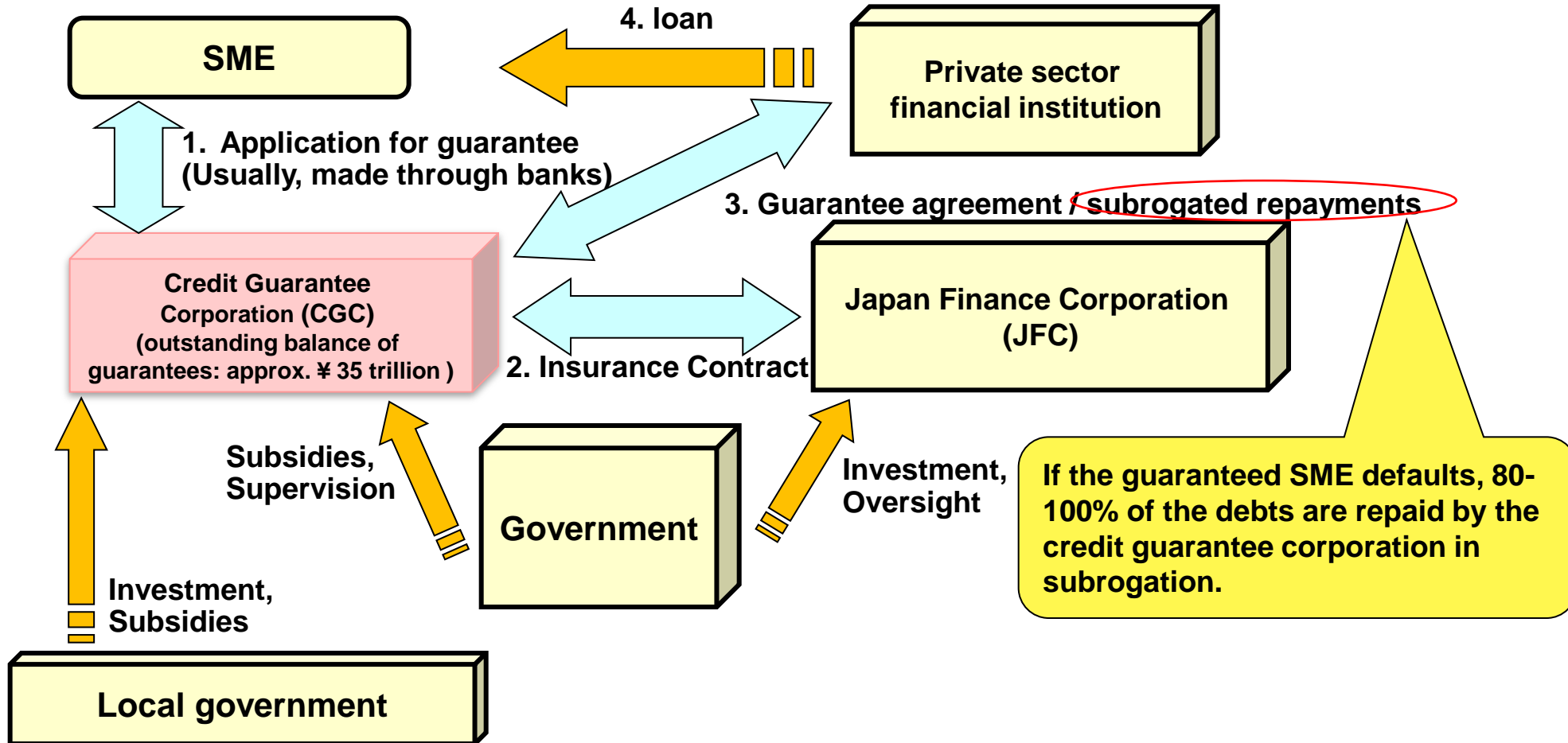
5. Public SME Financing: Loans

Public SME financing includes: ① policy financing (finance for start-ups and overseas development), and ② safety net financing (finance for enterprises whose business conditions are temporarily deteriorating or which are affected by natural disasters [earthquakes, typhoons, etc.]).



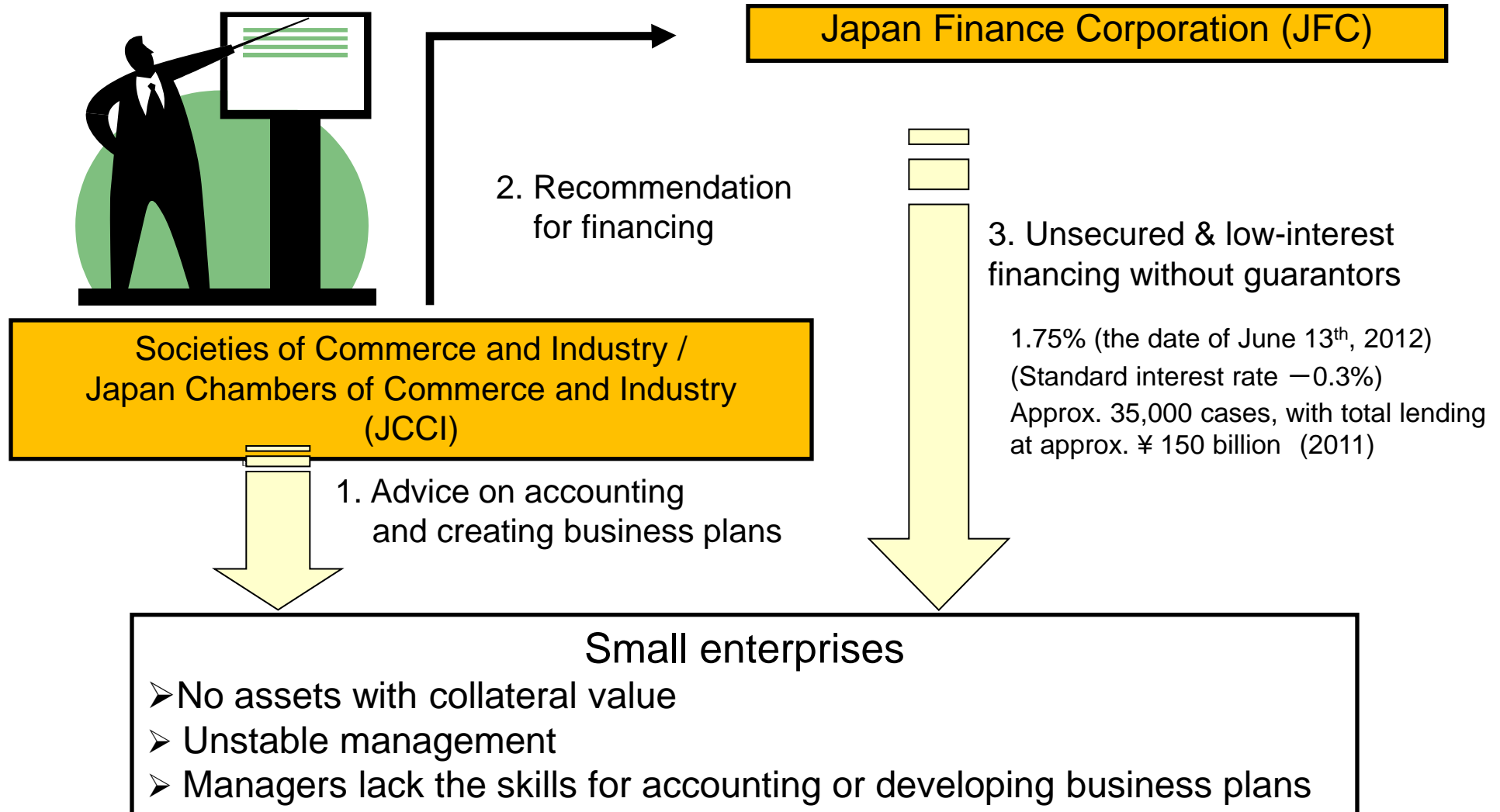
6. Public SME Financing: Credit Guarantee

- Credit guarantee corporations (52 in Japan) guarantee loans from private sector financial institutions to facilitate financing to SMEs that lack credit or collateral.
- If the guaranteed SME defaults, repayments are made by the credit guarantee corporation in subrogation.



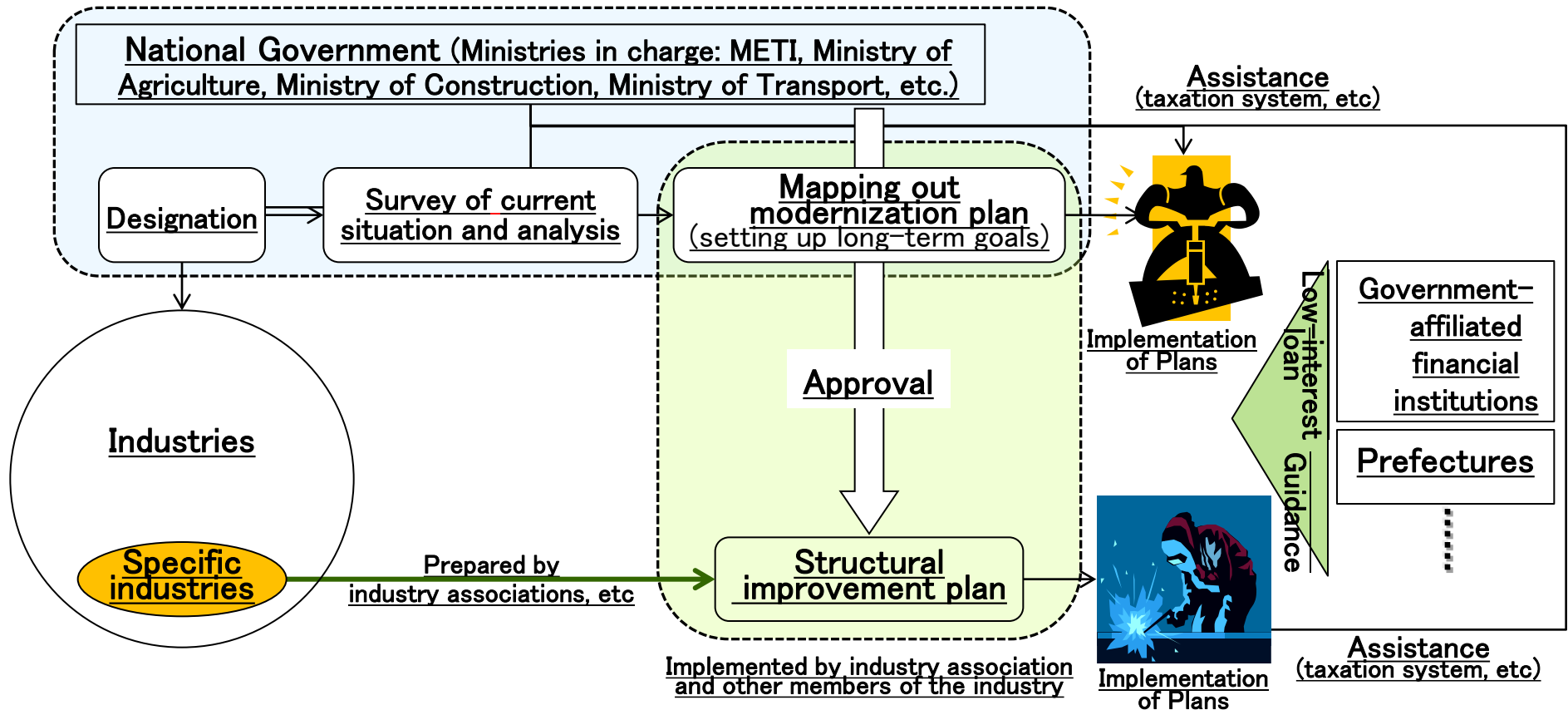
7. Management Improvement Loan

In support of management improvement in small enterprises that have particularly poor management resources and low productivity among SMEs, the Japan Finance Corporation provides unsecured low-interest financing without guarantors.



8. Law to Promote Modernization of SMEs of 1963

- ◆ The government designated certain industries requiring improvement of industrial structure and enhancement of international competitiveness and mapped out modernization plans for these industries.
- ◆ Among designated industries, the government picked specific industries that needed to be urgently reformed and that had industry-wide willingness to be reformed. These were designated as “specified industries.”
- ◆ For these specified industries, structural improvement plans were mapped out and implemented in line with the modernization plan and based on industry-wide consensus.



9. Counter-Cyclical Emergency Guarantee Program

(February 15, 2008 – March 31, 2011)

■ Outline

- CEGP provides full coverage of lending to SMEs in almost all business categories. (exceptions: agriculture, finance/insurance industry, etc.)
- Government budget: ¥ 2.7 trillion
- Total amount of guarantees: ¥ 27 trillion

■ Conditions

- SMEs can use CEGP if they satisfy the two conditions below.
 1. They belong to a designated business category.
 2. They have been certified by local mayors as facing difficult business conditions. (e.g. 3% decline in sales from previous year)

■ Content

- Credit Guarantee Corporation (CGC) provides guarantee.
 - Credit guarantee maximum amount: up to ¥ 80 million for unsecured loans and ¥ 200 million for secured loans
 - Covering percentage: 100%
 - Maximum term: up to 10 years (※ grace period: up to 2 years)
 - Charge rate: 0.8% or less