APEC SME Crisis Management Workshop
24-28 May 2010  Taipei, Taiwan

Financial Support for SMEs under the Economic Crisis in Japan

24 May 2010

Hikaru FUKANUMA
Principal Economist
Japan Finance Corporation Research Institute
Tokyo, Japan
Outline of the Presentation

Financial Support for SMEs under the Economic Crisis in Japan

1. SME Finance in Japan
2. Profile of Japan Finance Corporation (JFC)
3. SME Finance by JFC
4. SME Finance Policy under the Crisis
5. Problems to Consider
Lecturer

Hikaru Fukanuma (Mr.) 深沼 光

Principal Economist,
Japan Finance Corporation Research Institute
Visiting Lecturer,
Rikkyo University & Kanazawa University
Policy Paper Tutor,
Seminar on Economic Policies, Ministry of Finance

Bachelor of Economics, Osaka University
Master of Business Administration, University of Rochester
Financial Support for SMEs under the Economic Crisis in Japan

1. SME Finance in Japan
2. Profile of Japan Finance Corporation (JFC)
3. SME Finance by JFC
4. SME Finance Policy under the Crisis
5. Problems to Consider
### Definition of SME in Japan

#### Definition in SME Basic Law

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Small and Medium Enterprise (to fulfill either of the criteria)</th>
<th>Small Scale Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital Stock (Yen)</td>
<td>Employees</td>
</tr>
<tr>
<td>Manufacture and Others</td>
<td>300 mil. or less</td>
<td>300 or less</td>
</tr>
<tr>
<td>Wholesale</td>
<td>100 mil. or less</td>
<td>100 or less</td>
</tr>
<tr>
<td>Retail</td>
<td>50 mil. or less</td>
<td>50 or less</td>
</tr>
<tr>
<td>Service</td>
<td>50 mil. or less</td>
<td>100 or less</td>
</tr>
</tbody>
</table>

#### Number of SMEs (2006)

- Large Enterprises: 12,351 (0.3%)
- SMEs: 4,197,719 (99.7%)
- Small Scale Enterprises: 3,663,069 (87.0%)

Ministry of Internal Affairs and Communications of "Establishment and Enterprise Census of Japan"
Financial Position of SME


Note: DI = Percentage for “Easy” - Percentage for “Difficult”
Financial Constraints of SME

Why do SMEs have difficulties to obtain fund?

1. Information Asymmetry
2. Insufficient Collateral
3. Economies of Scale of Lenders
4. Weakness against Shock / Crisis
## External Finance Measures for SMEs

### Direct Finance

<table>
<thead>
<tr>
<th>Stock</th>
<th>Publicly-offered</th>
<th>Privately-offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond</td>
<td>Publicly-offered</td>
<td>Privately-offered</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Indirect Finance

<table>
<thead>
<tr>
<th>Borrowings (Loans)</th>
<th>Private financial institutions</th>
<th>Policy-based financial institution</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Credit Supplementation System

- Credit Guarantee Corporations

### Trade Credit

- Deferred payment credit
- Bills payable, Account payable, Others

### Capital Lease
## Fund-raising Structure

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Capital</td>
<td>-1.9 %</td>
<td>25.6 %</td>
<td>40.8 %</td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>60.0 %</td>
<td>33.8 %</td>
<td>19.5 %</td>
</tr>
<tr>
<td>Others</td>
<td>14.4 %</td>
<td>15.9 %</td>
<td>4.5 %</td>
</tr>
<tr>
<td>Bill Payable, Account Payable</td>
<td>27.4 %</td>
<td>24.7 %</td>
<td>35.2 %</td>
</tr>
<tr>
<td>Bill Payable, Other Debt</td>
<td>100.0 %</td>
<td>100.0 %</td>
<td>100.0 %</td>
</tr>
</tbody>
</table>

(As of March 31, 2009)

Ministry of Finance, *Financial Statements Statistics of Corporation by Industry*
Financial Institutions for SMEs

Private
- Banks
  - City Banks
  - Regional Banks
  - Other Banks
  - Credit Associations
  - Credit Cooperatives
- Cooperatives
- Non-banks
- Finance Companies
  - Factoring Companies
  - Credit Card Companies
- Special Company
- Policy-based
  - Local Government
  - Japan Finance Corporation (JFC)
- Micro Business and Individual Unit
- Small and Medium Enterprise (SME) Unit
- Shoko Chukin Bank

SMEs

JFC

Loan
Guarantee
Insurance
Deposit

Credit Guarantee Corporations
## Loans Outstanding to SMEs

<table>
<thead>
<tr>
<th>Type of Financial Institutions</th>
<th>Balance (billion yen)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Financial Institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>228,054</td>
<td>94.7</td>
</tr>
<tr>
<td>City Banks, Regional Banks, Other Banks</td>
<td>176,305</td>
<td>73.2</td>
</tr>
<tr>
<td>Cooperative Financial Institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Associations</td>
<td>42,331</td>
<td>17.6</td>
</tr>
<tr>
<td>Credit Cooperatives</td>
<td>9,419</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Japan Finance Corporation (JFC)</strong></td>
<td>12,760</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Micro Business and Individual Unit</strong></td>
<td>6,150</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Small and Medium Enterprise (SME) Unit</strong></td>
<td>6,610</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>255,328</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

(As of the end of Feb. 2010)

Financial Support for SMEs under the Economic Crisis in Japan

1. SME Finance in Japan
2. Profile of Japan Finance Corporation (JFC)
3. SME Finance by JFC
4. SME Finance Policy under the Crisis
5. Problems to Consider
# Profile of JFC(1)

| Status         | Policy-based financial institution  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100% owned by the Japanese government.</td>
</tr>
<tr>
<td>Purpose</td>
<td>To contribute to the sound socio-economic development of Japan and the international community, and to improve the lives of Japanese citizens.</td>
</tr>
<tr>
<td></td>
<td><strong>Not to Maximize Profit</strong></td>
</tr>
</tbody>
</table>
| Establishment  | October 1, 2008  
|                | (Oldest Predecessor NLFC was Established in 1949) |
| Capital        | 3,391 billion yen (as of Aug. 6, 2009) |
## Profile of JFC(2)

<table>
<thead>
<tr>
<th>Branch Offices</th>
<th>152 (in Japan, as of Feb. 1, 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>8,117</td>
</tr>
<tr>
<td><strong>Outstanding Loans</strong></td>
<td></td>
</tr>
<tr>
<td>(as of Mar. 2009)</td>
<td></td>
</tr>
<tr>
<td><strong>Micro Business and Individual Unit</strong></td>
<td>7,539 billion yen</td>
</tr>
<tr>
<td><strong>Small and Medium Enterprise Unit</strong></td>
<td>5,814 billion yen</td>
</tr>
<tr>
<td><strong>Agriculture, Forestry, Fisheries, Food Business and Consumers Unit</strong></td>
<td>2,823 billion yen</td>
</tr>
<tr>
<td><strong>Japan Bank for International Cooperation (JBIC)</strong></td>
<td>7,313 billion yen</td>
</tr>
</tbody>
</table>
Establishment of JFC

- National Life Finance Corporation (NLFC)
- Japan Finance Corporation for Small and Medium Enterprise (JASME)
- Agriculture, Forestry and Fisheries Finance Corporation (AFC)
- Japan Bank for International Cooperation (JBIC)

OFC operations

- JICA

ODA operations

- (Oct 1, 2008)

Japan Finance Corporation (JFC)

- Micro Business and Individual Unit
- Small and Medium Enterprise (SME) Unit
- Agriculture, Forestry, Fisheries and Food Business Unit
- Japan Bank for International Cooperation (JBIC)

- Okinawa Development Finance Corporation
- Shoko Chukin Bank
- Development Bank of Japan
- Japan Finance Corporation for Municipal Enterprise

- To be privatized
- To be privatized
- Abolished

(After 2012)
Source of Fund

Government Own Stocks

Special Account Surplus Reserve, etc

FILP Bonds

Deposit

Financial Market

Dividends, etc.

Government

General Account

Industrial Investment Special Account

FILP Special Account

Equity Subsidy

Loan

Loan

Government-guaranteed Bonds

Money Flow

Bond Issue

FILP

JFC

FILP: Fiscal Investment and Loan Program
Financial Support for SMEs under the Economic Crisis in Japan

1. SME Finance in Japan
2. Profile of Japan Finance Corporation (JFC)
3. SME Finance by JFC
4. SME Finance Policy under the Crisis
5. Problems to Consider
## SME Finance Units of JFC

<table>
<thead>
<tr>
<th>Predecessor</th>
<th>Micro Business and Individual Unit</th>
<th>Small and Medium Enterprise (SME) Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Life Finance Corporation (NLFC)</td>
<td>Business loans Education Loans, etc</td>
<td>Japan Finance Corporation for Small and Medium Enterprise (JASME)</td>
</tr>
<tr>
<td>Operation</td>
<td>Business loans Education Loans, etc</td>
<td>Business loans Securitization Support Credit insurance</td>
</tr>
<tr>
<td>Target SMEs</td>
<td>micro and small</td>
<td>medium</td>
</tr>
<tr>
<td>Maximum loan amount</td>
<td>72 million yen</td>
<td>720 million yen</td>
</tr>
<tr>
<td>Average Loan amount</td>
<td>6.87 million yen</td>
<td>58 million yen</td>
</tr>
<tr>
<td>Employees</td>
<td>4,700</td>
<td>2,000</td>
</tr>
</tbody>
</table>
Attribute of SME Finance by JFC

(1)

Borrowers
- SME/ Micro and Small businesses
- Wide range

Loans
- Huge number / Small amount
- Mid and long term
- Less collateral
  (No Deposit Service)
- Special Loans with Political Aims
  (e.g. Environment Equipment Loan)
- Supporting Business Start-ups
Attribute of SME Finance by JFC

(2)

- Lisk and Cost
  - Higher Risk
  - More Cost

Difficult for private sector to deal with

Complementary Roles
Attribute of SME Finance by JFC

JFC complements Private financial institutions by bridging the gap

SMEs

- Well Performing SMEs
- Ordinary SMEs
- Micro Businesses
- Badly Performing SMEs
- Socially Needed SMEs
- Business Startups
- SMEs under Crisis

JFC

Private Financial Institutions (PFIs)
JFC Micro Business and Individual Unit (1)

JFC Micro Business and Individual Unit has been giving financial support to Micro and Small Enterprises (MSEs) and individuals that have difficulties in obtaining fund from private sector, just as former NLFC has done since its establishment in 1949.

<table>
<thead>
<tr>
<th>History</th>
<th>1949</th>
<th>Establishment of People’s Finance Corporation (PFC)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>Reorganized into National Life Finance Corporation (NLFC)</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>Integrated into Japan Finance Corporation (JFC)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans Outstanding</th>
<th>Business Loans to MSEs</th>
<th>6,533 billion yen (≒ USD 65 billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Other Loans</td>
<td>1,006 billion yen</td>
</tr>
</tbody>
</table>

| Business Loans Disbursed in FY2008 | 2,191 billion yen (Number of loans: 318,717) |

(As of March 31, 2009)

< Roles of JFC-Micro during the high-growth period >

JFC Micro Business and Individual Unit contributed to high economic growth in Japan by responding to very strong fund demands from micro businesses in 1950s-1960s.

Some famous Japanese giant enterprises used to be clients in their initial stage (e.g. SONY).
### JFC Micro Business and Individual Unit (2)

#### Characteristics of business loans

<table>
<thead>
<tr>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro and Small</strong></td>
</tr>
<tr>
<td>Borrowers with 9 employees or less: 86.3% (FY 2008)</td>
</tr>
<tr>
<td><strong>Huge Number</strong></td>
</tr>
<tr>
<td>1,135,110 borrowers (As of the end of March, 2009)</td>
</tr>
<tr>
<td>[approx. 27% of the total enterprises in Japan]</td>
</tr>
<tr>
<td><strong>Wide Range</strong></td>
</tr>
<tr>
<td>No concentration on specific industry and region</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Small Amount</strong></td>
</tr>
<tr>
<td>Average amount per loan: 6.87 million yen ($\approx 68,700USD) in FY2008</td>
</tr>
<tr>
<td><strong>Mid or Long Term</strong></td>
</tr>
<tr>
<td>3-5 years: 73%, 6-10 years: 19% (FY2008, in number)</td>
</tr>
<tr>
<td><strong>No Collateral</strong></td>
</tr>
<tr>
<td>Loans not secured by collateral: 80.6% (FY2008, in number)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Creation of Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Start-up Support</strong></td>
</tr>
<tr>
<td>- Providing start-up loans to 20,141 entrepreneurs (FY2008)</td>
</tr>
<tr>
<td>- Establishing 17 Business Start-up Supporting Centers</td>
</tr>
</tbody>
</table>
## JFC Micro Business and Individual Unit (3)

### Comparison with other financial institutions

<table>
<thead>
<tr>
<th></th>
<th>Number of Institution(s)</th>
<th>Total number of SME customers</th>
<th>Loans outstanding per customer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Banks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Banks and Regional Banks</td>
<td>144</td>
<td>approx. 2,300,000 (15,972 per institution)</td>
<td>80.3 million yen (803,000 USD)</td>
</tr>
<tr>
<td>(As of the end of Mar. 2008)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Credit Associations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional small financial institutions for SME</td>
<td>287</td>
<td>approx. 1,250,000 (4,355 per institution)</td>
<td>33.4 million yen (334,000 USD)</td>
</tr>
<tr>
<td>(As of the end of Mar. 2008)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>JFC Micro Business and Individual Unit</strong></td>
<td>1</td>
<td>1,135,110</td>
<td>5.7 million yen (57,000 USD)</td>
</tr>
<tr>
<td>(As of the end of Mar. 2009)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Bank of Japan, website
# JFC Micro Business and Individual Unit (4)

Small Business Loan [1]

**Cooperation with Chambers / Societies of Commerce and Industry**

(As of Oct. 2009)

<table>
<thead>
<tr>
<th>Official Name</th>
<th>Managerial Improvement Loan (Established in 1973)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target</strong></td>
<td></td>
</tr>
<tr>
<td>Commerce and service / 5 or less employees</td>
<td></td>
</tr>
<tr>
<td>Manufacturing and other / 20 or less employees</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>Recommendation of Chamber of Commerce and Industry (CCI) or Society of Commerce and Industry (SCI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements for the</td>
<td>More than 6 months managerial consulting by CCI/SCI</td>
</tr>
<tr>
<td>recommendation</td>
<td>More than a year business in the same area</td>
</tr>
<tr>
<td></td>
<td>Pay up taxes</td>
</tr>
</tbody>
</table>
Small Business Loan [2]

(As of Oct. 2009)

<table>
<thead>
<tr>
<th>Terms and conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum amount</td>
</tr>
<tr>
<td>Period</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Interest rate</td>
</tr>
<tr>
<td>Remark</td>
</tr>
</tbody>
</table>
Small Business Loan [3]

Procedure

CCI or SCI

Credit Committee → Approval by Chairman
(3) Evaluation

Consulting Managers

(1) Managerial guidance
(2) Application

CCI or SCI Members

(4) Recommendation for loan

JFC-Micro

Analysis
Approval

(5) Loan
Small Business Loan [4]

Close collaboration with CCI/SCI makes it possible to provide loans without collateral or a guarantor.

CCI / SCI Consulting Managers

Keep close contact

Training & Meeting
Teaching how to evaluate SMEs from financial aspect

Giving information
Providing useful information on member SMEs

SMEs

JFC Branch offices

Business Support

Financial Support
**JFC Small and Medium Enterprise (SME) Unit(1)**

**Business Program of SME Unit**

### LOAN PROGRAMS

- **Special Aimed Loans to SMEs such as Safety Net Loan**

  **[FY 2008 Business Results]**
  - Loan Amount
    → \( \$1,384 \text{ billion} \)
  - Loan Outstanding
    → \( \$5,814 \text{ billion} \)

### SECURITIZATION SUPPORT PROGRAMS

- **Support for private financial institutions utilizing securitization methods**
  1. Operations to securitize unsecured SME loan claims etc., by purchasing them from private financial institutions, and acquisition of trust beneficiary rights, etc.
  2. Operations to partially guarantee unsecured SME loan claims etc., securitized by private financial institutions, and guarantee of securitized instruments, etc.

  **[FY 2008 Business Results]**
  - Purchase-type loan principal amount
    → \( \$4 \text{ billion} \)
  - Guarantee-type loan principal amount
    → \( \$42 \text{ billion} \)

### CREDIT INSURANCE PROGRAMS

- **Provision of insurance on Credit Guarantee Corporations (CGCs) guaranteed liabilities associated with loans to SMEs**
- **Loans to CGCs**

  **[FY 2008 Business Results]**
  - Amount of Small Business Credit Insurance accepted
    → \( \$18,629 \text{ billion} \)
  - Insurance Outstanding to CGCs
    → \( \$34,579 \text{ billion} \)
JFC Small and Medium Enterprise (SME) Unit (2)

Credit Supplementation System [1]

- Central Government
- Local Government
- Credit Guarantee Corporations (CGCs)
- Private Financial Institutions
- SMEs

Supervision Contributions

Credit Insurance System

Credit Guarantee System

Credit Insurance Contract

Credit Guarantee Contract

Guarantee

Loan
Credit Supplementation System [2]

- Used by 40% of SMEs
- Average guaranteed amount is 12 million yen (per SME)
- Supports 11% of SME Loans
- Functioning as a safety net for SMEs

※ Implementing “Safety Net Guarantee” for SMEs suffering from credit crunches, bankruptcy of trading financial institutions or clients, disasters, etc.

- Basic Guarantee Fee: 0.5% - 2.2%

Mobilize Private Finance Institutions (PFIs) to provide loans for SMEs.
Financial Support for SMEs under the Economic Crisis in Japan

1. SME Finance in Japan
2. Profile of Japan Finance Corporation (JFC)
3. SME Finance by JFC
4. SME Finance Policy under the Crisis
5. Problems to Consider
**SMEs under the Current Crisis (1)**

**Diffusion Index of “Business Condition”**

- **Micro Businesses**
- **Small and Medium Enterprises**

| JFC Research Institute, Quarterly Survey on Small and Medium Enterprises in Japan |
| Micro Enterprises: Sample from borrowers of JFC Micro business and Individual Unit |
| Small and Medium Enterprises: Sample from borrowers of JFC Small and Medium Enterprise (SME) Unit |
| As for Micro Businesses, ratio of enterprises that answered “good” - ratio of enterprises that answered “bad” |
| As for Small and Medium Enterprises, ratio of enterprises that answered “upturn” - ratio of enterprises that answered “downturn” |
SMEs under the Current Crisis (2)

Diffusion Index of “Cash Flow Situation”

Small and Medium Enterprises

Micro Businesses


JFC Research Institute, Quarterly Survey on Small and Medium Enterprises in Japan
Micro Enterprises: Sample from borrowers of JFC Micro business and Individual Unit
Small and Medium Enterprises: Sample from borrowers of JFC Small and Medium Enterprise (SME) Unit
Ratio of enterprises that answered “upturn” - ratio of enterprises which answered “downturn”
Use of Policy-based Finance System


Based on the Packages, various support schemes in the field of SME finance have been adopted.

Principal financial support measures for SMEs under the packages have been implemented through policy-based finance system including a special company.
Support Measures under the Crisis

“Safety-net Loans”
- Special Loan Scheme by JFC (as described later in detail)

“Emergency Credit Guarantee Scheme”
Guarantee scheme by Credit Guarantee Corporations (CGCs)
- 100% guarantee for private bank loan, etc.
- Guarantee period: 10 years, Guarantee fee: 0.8%
- Maximum amount: 280 million yen

“Risk Management Duties”
Special Loan Scheme for the policy-based purpose
- Loan scheme through special bank (Shoko Chukin Bank, etc.)
- JFC provides fund resource or insurance
# JFC’s Safety-net Loans (1)

<table>
<thead>
<tr>
<th>Who can use</th>
<th>Business environment change fund</th>
<th>Financing environment change fund</th>
<th>Bankruptcy measure fund</th>
</tr>
</thead>
</table>
| **Micro Unit** | SMEs suffering a decline in sales or profit due to change of economic circumstance | - SMEs suffering difficult fund management due to change of financial institutions lending stance  
- SMEs receiving strong repayment claim from financial institutions against the background of global financial and economic crisis | SMEs facing difficulties caused by the bankruptcy of trading partners (working fund only) |
| **SME Unit** | 720 million yen (7.2 million USD) | 300 million yen (3 million USD) | 150 million yen (1.5 million USD) |
| Max. | 48 million yen (480,000 USD) | 40 million yen (400,000 USD) | 30 million yen (300,000 USD) |
| Repayment period | - Working fund: 8 years or less (grace period: 3 years or less)  
- Equipment fund: 15 years or less (grace period: 3 years or less) | 8 years or less (grace period: 1 year) |  |
| Interest rate reduction | - 0.3% reduction for SMEs suffering a serious downturn** in their business  
- 0.1% (0.2% after Feb.2010) reduction for SMEs that contribute to maintain/increase of employment | |  |

** Micro Business and Individual Unit

** In case that the decrease of sales or profit meets a certain criteria
## JFC’s Safety-net Loans (2)

### Result of Safety-net Loans

<table>
<thead>
<tr>
<th></th>
<th>Micro Business and Individual Unit</th>
<th>SME Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Over the previous year</td>
</tr>
<tr>
<td>Oct-Dec 2008</td>
<td>379 billion yen (USD 3.79 bil.)</td>
<td>144%</td>
</tr>
<tr>
<td>Jan-Mar 2009</td>
<td>351 billion yen (USD 3.51 bil.)</td>
<td>233%</td>
</tr>
<tr>
<td>Apr.2009-Mar.2010 (Tentative.)</td>
<td>5,128 billion yen (USD 51.28 bil.)</td>
<td>242%</td>
</tr>
</tbody>
</table>

*Source: JFC Website.*
JFC Loans Complement Private Sectors’

<Growth Rate of Loans Outstanding to SMEs>

Sources: Bank of Japan, *Monthly Financial and Economic Statistics* and Other Sources. (As Of the end of March, for 2010, Feb.)
## Safety-net by Credit Guarantee

### <Amount of Small Business Credit Insurance accepted>

<table>
<thead>
<tr>
<th>FY</th>
<th>Number of Loans (thousand)</th>
<th>Amount (bil. Yen)</th>
<th>Over the previous Year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,151</td>
<td>12,311</td>
<td>86.2</td>
</tr>
<tr>
<td>2005</td>
<td>1,118</td>
<td>12,552</td>
<td>102.0</td>
</tr>
<tr>
<td>2006</td>
<td>1,182</td>
<td>13,444</td>
<td>107.1</td>
</tr>
<tr>
<td>2007</td>
<td>1,100</td>
<td>12,865</td>
<td>95.7</td>
</tr>
<tr>
<td>2008</td>
<td>1,277</td>
<td>18,663</td>
<td>145.1</td>
</tr>
<tr>
<td>2009</td>
<td>1,142</td>
<td>16,061</td>
<td>86.1</td>
</tr>
</tbody>
</table>

Note: Including Emergency Guarantee Program.

Sources: JFC Website  (As of the end of March)
## JFC’s Risk Management Duty

### Result of Special Loans and Insurance

<table>
<thead>
<tr>
<th></th>
<th>Loans</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Over the previous year</td>
</tr>
<tr>
<td>Oct-Dec 2008</td>
<td>N.A.</td>
<td>-</td>
</tr>
<tr>
<td>Jan-Mar 2009</td>
<td>1,430 billion yen (USD 14.30 bil.)</td>
<td>-</td>
</tr>
<tr>
<td>Apr.2009 - Mar.2010 (Tentative.)</td>
<td>5,356 billion yen (USD 53.56 bil.)</td>
<td>267%</td>
</tr>
</tbody>
</table>

*Source: JFC Website.*
Role of Policy-based Finance

**SMEs**

*Internal factors*
- Information asymmetry
- Lack of collateral
- Small fund demand
- Needs for long term finance

*External factors*
- Change of socioeconomic environment
- Natural disaster

---

**Private finance**

**Financial Resource**

**Bridge**

**Policy-based Finance**
- JFC’s loan
- Credit guarantee system
Financial Support for SMEs under the Economic Crisis in Japan

1. SME Finance in Japan
2. Profile of Japan Finance Corporation (JFC)
3. SME Finance by JFC
4. SME Finance Policy under the Crisis
5. Problems to Consider
Policy Targets

What SMEs we should support?

1. All SMEs?
2. Small SMEs?
3. Specific Area (e.g. in Kobe)?
4. Specific Industry (e.g. Manufacture)?
5. Business Startups?
6. Specific Age / Woman Entrepreneur?
7. etc.
Method of Support (1)

How we should support SMEs?

1. Direct Loans?
2. Credit Guarantee?
3. Direct Subsidy?
4. Subsidy to Loans (e.g. interest supplement)
5. Subsidy to private banks?
Method of Support (2)

How we should support SMEs?

6. Subsidy to Local Government?
7. Tax Reduction?
8. Non financial Support (e.g. education)?
9. etc. There are many ways to support.
Measures for Decision

Why / How we choose the one?

1. Cost v.s. Revenue
2. Cost v.s. Benefit
3. Advantage v.s. Disadvantage
4. Empirical Studies
5. etc. We need measures to make decision.
Total Operation(1)

Can we deliver the policy?

1. Benefit / Incentive to SMEs
2. Cash Flow
3. Cost Coverage
4. Delivery Institutions
   (Government Sectors, Private Banks, NPOs, etc.)
Total Operation(2)

Can we deliver the Policy?

5. Incentive to Institutions
6. Human Resources of Institutions
7. Law and other Infrastructures
8. etc.
Total Operation(3)

Don’t we have a bottle neck?

Source: Michael E. Poter, “Competitive Advantage” (1985)
Thank You for Your Attention!

Contact Information

Hikaru Fukanuma
Principal Economist
Japan Finance Corporation Research Institute
Tokyo, Japan

E-mail: fukanuma-h@k.jfc.go.jp
        manov@mtg.biglobe.ne.jp