

SME Finance

Nov. 24, 2014

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1. Why do we need SME finance policy?
 - cost, information asymmetry, and crisis moment
2. Best practice of financial institution
3. Best practice of SME management
4. Best practice of governmental intervention
5. Why do SME agency have to take care of finance?

1. Why do we need SME finance policy?

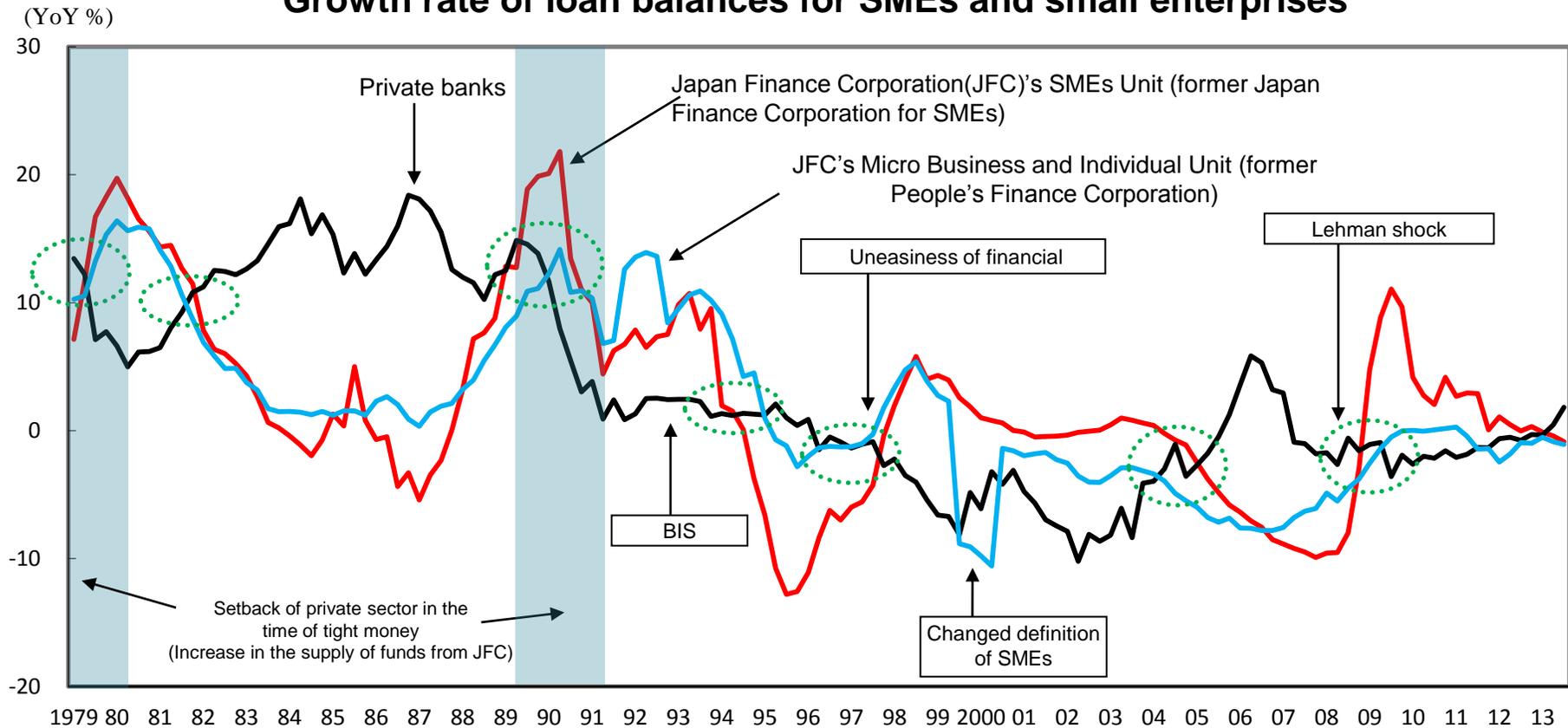
《Bottlenecks of SME finance》

1. Examination of new loans and monitoring cost are not small
→ Private banks tend to prioritize lending to larger companies
2. Information asymmetry – difficult to capture the financial condition of SMEs
→ Private banks hesitate to take risks in SME finance
3. When economic crisis occur, this trend is accelerated.
→ Private banks try to keep capital adequacy ratio and reduce lending to SMEs.

1-2. Case Study of Safety net: Japan's case

- Governmental financial institutions show inverse correlation with the ones from private financial institutions.
- They work as a safety net in case of tightened lending from private financial institutions and occurrence of major economic shocks such as Lehman shock and Earthquake(2008-11.)
- Not only providing liquidity, they support SMEs to craft and realize their business plans. (I.g. Shoco-chukin provided loans to 47,000 SMEs and 95% of them recovered in some indicators. Nobody but Shoco-chukin helped 16,000 SMEs and they saved 950,000 of workers.)

Growth rate of loan balances for SMEs and small enterprises



2. Best practice of financial institution

- Institutional approach to guarantee a financial institution to support SME so as to improve local economy, which lead to stable profit for the financial institution – Community bank, SME bank
- Regulatory approach to support the above virtuous cycle by ordinary bank – relationship banking

Shinkin bank achievement in Japan (1952-1955)

(fy)	1952	1953	1954	1955
Number of established Shinkin bank	381	508	559	556
Number of branches	1,524	1,806	2,076	2,197
Deposits outstanding	87,384	153,184	201,213	242,674
Lending outstanding	61,644	114,617	161,063	186,613

Loans result of Shoko Chukin Bank

	1936	1946	1956	1966
Loans	2	474	171,081	1,140,947

(million yen)

Practices of Relationship Banking

- ✓ Business matching
- ✓ Promote unsecured loans
- ✓ Skill training programs
- ✓ Help Setting Mid-term Management Plan
- ✓ Support Innovation and Human Resource Development
- ✓ Utilize outside resources

3. Best practice of SME Management

- To form SME union or alliance to increase credibility
- To reduce information asymmetry by enhancing SME accounting

Main SME Unions in Japan (as of 2014)

- ◆ Business Cooperative Associations: about 30,000
- ◆ Syndicates: about 1,900
- ◆ cooperative partnerships : about 800

The General Accounting Standard for SMEs*

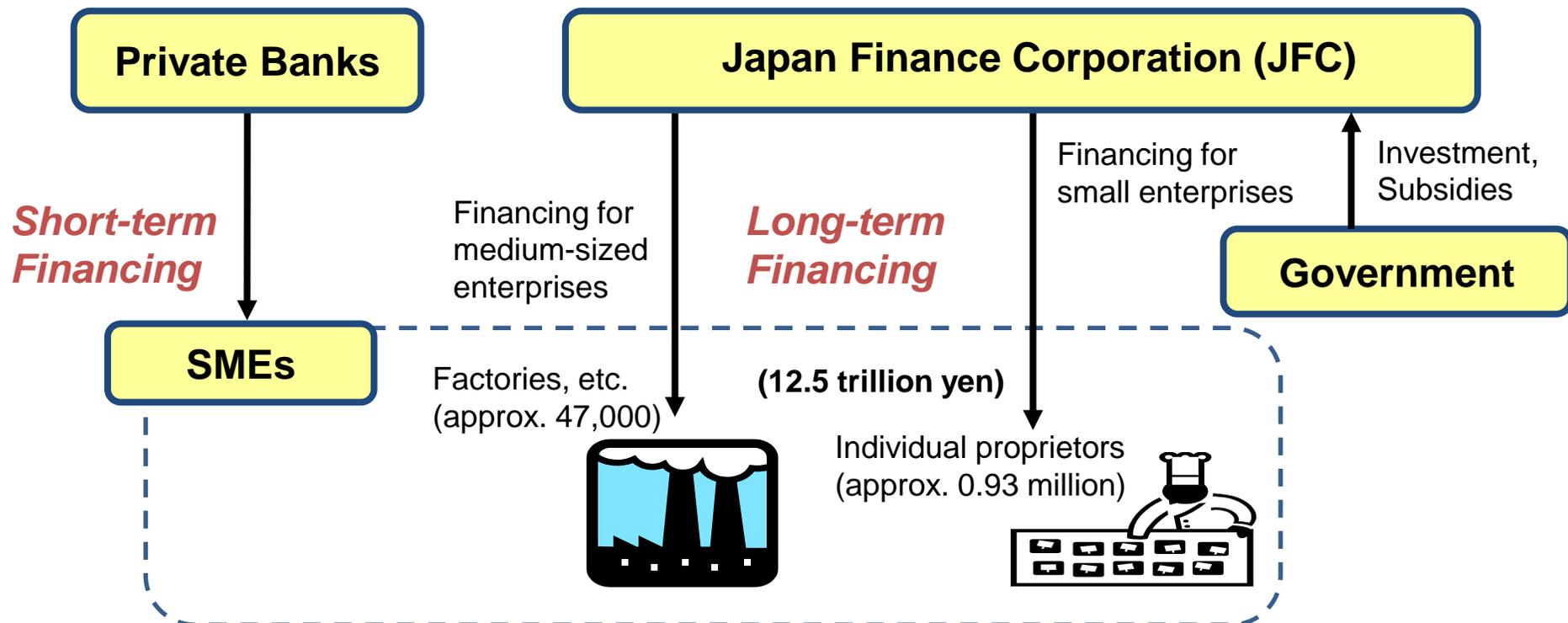
- ✓ Help SME owners/operators to know how their own financial conditions exactly are.
- ✓ Serve to provide SME stakeholders (financial institutions, trade partners, shareholders, etc.) with necessary accounting information.
- ✓ Fully take into consideration the accounting practice followed by SMEs in their business, harmonize their accounting system with the existing tax.
- ✓ Not to impose excessive paperwork burden on SMEs.
- ✓ Conform to the “fair and reasonable accounting practice.”

*developed by the WG set up by the SME Agency and the Financial Services Agency, in collaboration with SME-related parties (SME associations, tax accountants, certified public accountants, financial institutions, etc.)

4. Best practice of governmental intervention (1) : Loans

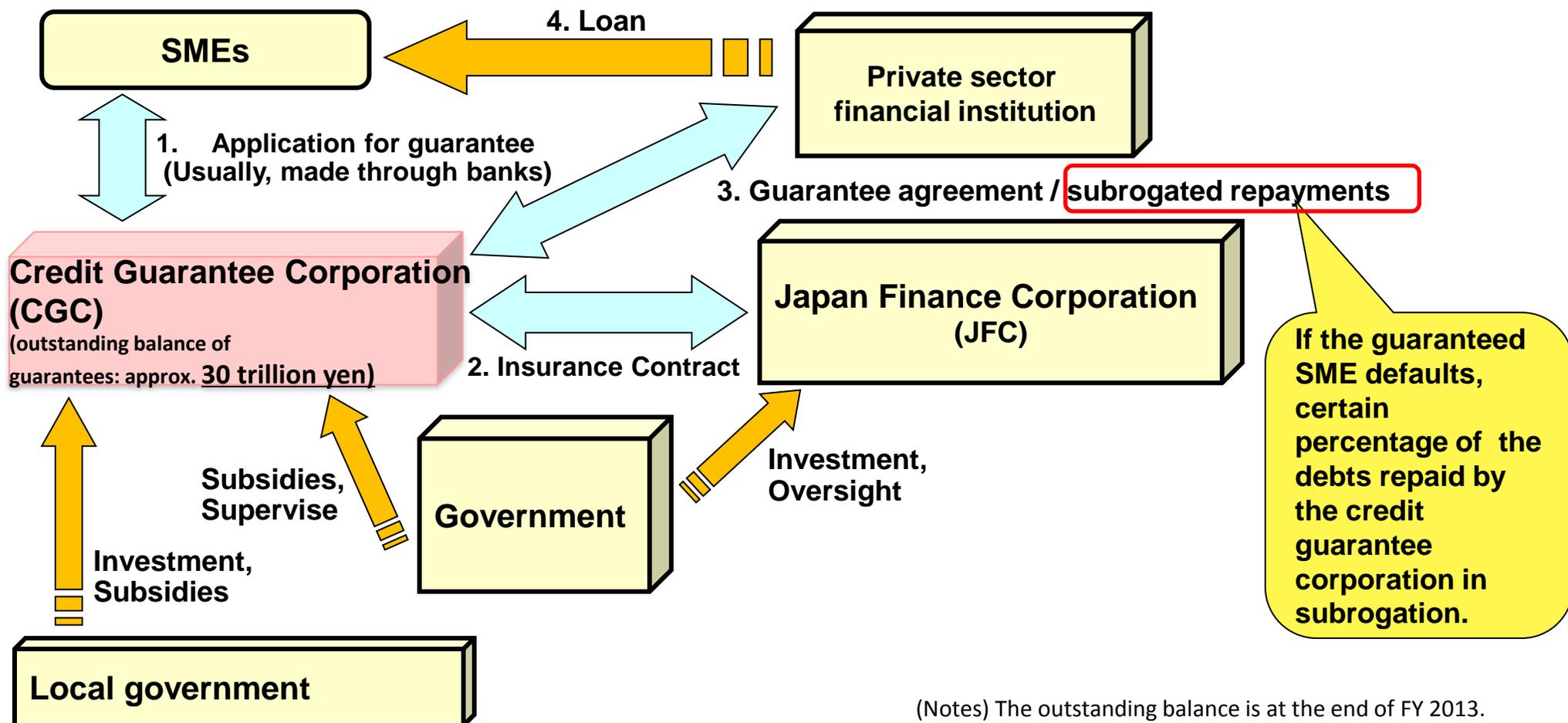
- For the 3.85 million SMEs in Japan, financial arrangement is a key business priority.
- Government-affiliated financial institutions provide about 10% of all loans to SMEs. Added to credit guarantees, the ratio rises up to 20%.
- Specifically, public SME financing includes: ① policy financing (finance for entrepreneurship), and ② safety net financing (finance for enterprises whose business conditions are temporarily deteriorating or which are affected by natural disasters [earthquakes, typhoons, etc.]).

Public Financing as a complement of Private Financing



4. Best practice of governmental intervention (2): Credit Guarantees

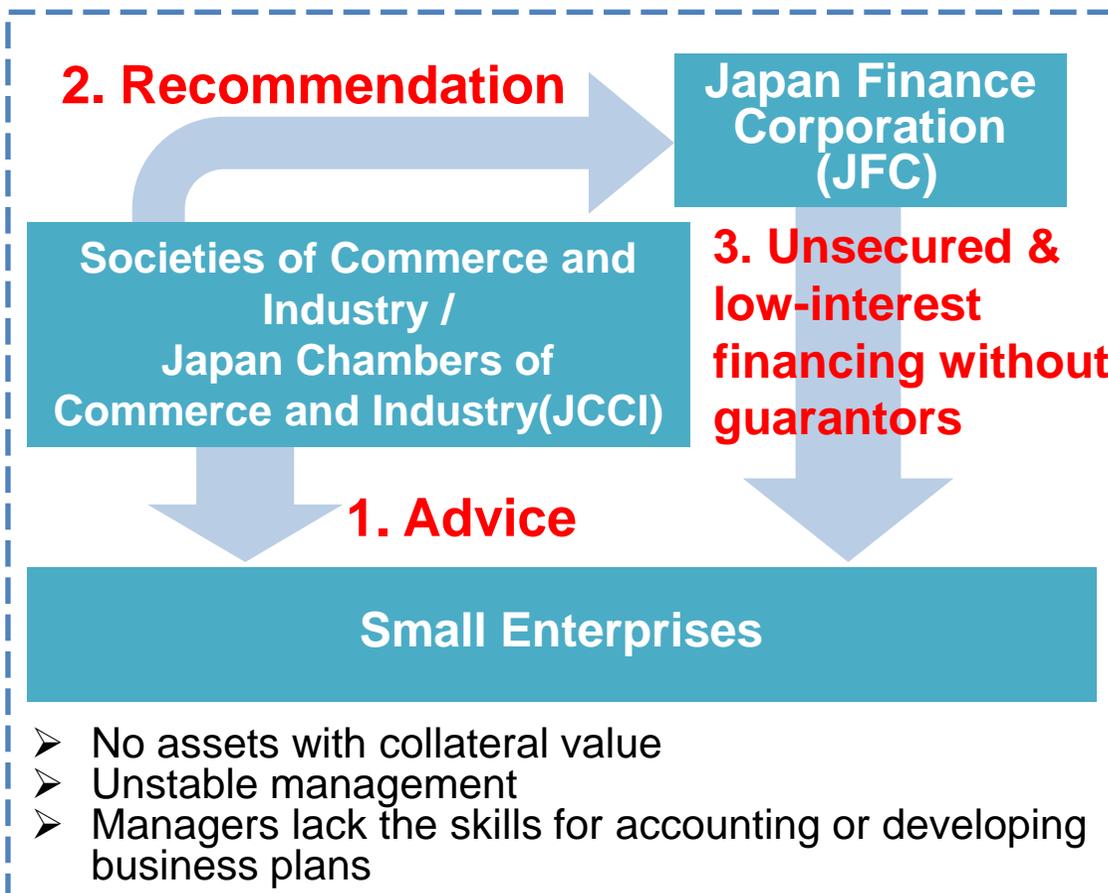
- Credit guarantee corporations (52 in Japan) guarantee borrowings from private sector financial institutions to facilitate financing to SMEs that lack credit or collateral.
- If the guaranteed SME defaults, repayments are made by the credit guarantee corporation in subrogation.



5. Why do SME Agencies have to take care of finance?

1. Finance is necessary to strengthen SME which is the main mission of SME agencies
2. Financial policy can be utilized to implement other policy goals such as management improvement, business matching and SME globalization. Actually, financial institutions are great resources to implement SME policy

Management Improvement Loan



Different Banks for Different Size of Enterprises

