



## Experience Reference from the Financial Support Practices for Japan's Small and Medium-Sized Enterprises

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### Abstract

The government-dominant financial system in Japan has exerted significant effects on the reconstruction of economy, the realization of industrial policy goals, and the construction of independent industrial and national economic system after the war. In Japan, the government takes much count of support for small and medium-sized enterprise financing. It establishes a small and medium-sized enterprise financial system that takes non-governmental units as principal parts and government as assistant one. Different types of financial institutions coexist in the small and medium-sized financial system and complement one another, which serves as a great support for small and medium-sized enterprise. The financial support mode for Japan's small and medium-sized enterprises and its characteristics serve as inspirations for us in the fast and healthy development of China's small and medium-sized enterprises.

**Keywords:** Financial support, Small and medium-sized enterprises, Rise, Japanese-type way

After more than sixty years of development, Japan's economy has obtained marvelous achievements, what benefits greatly from Japan's strategic choice in developing small and medium-sized enterprises. In this paper, the author tries to conclude experiences and take reference from Japan's practice in developing small and medium-sized enterprises by financial support.

### 1. Practice of Japan's financial support for small and medium-sized enterprises

(1) Unique policy-based financial system. In the financial support for small and medium-sized enterprises, Japan is one of the best. In order to drive the growth of small and medium-sized enterprises and make it in accord with government's industrial policy, in the financial policy field, the government sets up different types of state-owned and policy-based financial institutions that provide with capital support for the development of small and medium-sized enterprises. The policy-based financial institutions founded after the war meet enterprises' capital needs for technological innovations. Policy-based financial institutions invest in enterprises' technological innovations firstly, what may introduce more investments from non-governmental financial institutions. By this way, it will help to transfer amounts of social capitals to technological innovations. Japan's financing system is composed of policy-based financial institutions and credit guarantee institutions. In Japan, there are three national financial institutions for small and medium-sized enterprises that are funded and controlled directly by the state, namely Japan Finance Corp. for Small and Medium Enterprise (totally 59 in Japan, locating in prefectures at different levels), National Life Finance Corp. (totally 152 in Japan, including the heard the branches), and Japan's Central Cooperative Bank for Commerce and Industry (100 inside and 2 outside, locating in prefectures at different levels). The loans provided by the three institutions for small and medium-sized enterprises account for about 10% of Japan's total finance. Different financial institutions have different focuses in financing. Thereof, Japan Finance Corp. for Small and Medium Enterprise is chiefly to support relatively large-scale small and medium-sized enterprises. Its loans for qualified enterprises include two kinds. The first is common loan used for buying equipments, including lands, workshops, and machines. The second is special loan used for new technologies for the sake of exports.

Japan's Central Cooperative Bank for Commerce and Industry is mainly to provide capitals for member enterprises. Meanwhile, for loans' different amounts approval conditions, and interests, preferential policies are different. In general, start-up enterprises can apply to Japan's Central Cooperative Bank for Commerce and Industry to a non-guaranteed loan of 10 million Yen. If necessary, the start-up enterprises can also apply to Japan Finance Corp. for Small and Medium Enterprise. Although for different borrowers the loan rates are different, the loan rates are relatively lower, long-term, and non-profitable. Once face losses, the start-up enterprises can apply to the government for allowances. By setting up specialized policy-based financial institutions, the government effectively separates businesses of policy-based banks

and that of commercial banks, what not only ensures commercial banks' independent operation, but also support small and medium-sized enterprises in policy, exerting important effects on solving the financing problem of small and medium-sized enterprises. In order to solve problems confronted by financial institutions in providing financial services for small and medium-sized enterprises, the government founds relevant credit guarantee institutions. Firstly, all prefectures at different levels found credit guarantee associations, wholly providing guarantees for small and medium-sized enterprises' liabilities to non-governmental financial institutions. Meanwhile, the credit guarantee associations entrust commercial financial institutions or social medium agencies to examine the enterprises that apply to guarantees, and take 0.5%-1% of loans as guarantee fees. Secondly, the government founded the credit insurance treasury in 1958. On one hand, it insures the loans granted by credit insurance associations. In other words, if small and medium-sized enterprises fail to repay loans borrowed from credit guarantee associations, the associations can obtain 70%-80% of repayments as insurance money. On the other hand, the insurance treasury provides with necessary short-term and long-term capital loans for credit guarantee associations. As the final loaners, the insurance treasury ensures the steady operation of associations. Thirdly, Chamber of Commerce & Industry can provide with credit evaluations for small enterprises' financing.

(2) Government's strong economic subsidy policies. In order to help small and medium-sized enterprises obtain necessary capitals, and make them exert significant effects on national economy and certain social fields, Japan makes up economic subsidy policies, chiefly including financial subsidy policy, preferential tax policy, and preferential loan policy. According to financial subsidy policy, the government provides with subsidies directly for technological innovations in order to encourage small and medium-sized enterprises to adopt new technologies and update old ones. According to the Law of Promotion of Small and Medium-sized Enterprises, Japan offers subsidies for innovative small and medium-sized enterprises' technological research and development. In order to support small and medium-sized enterprises in developing and introducing new technologies and pushing technological exchange, the government provides with 30 billion Yen subsidies annually in average. According to preferential loan policy, the government offers low-interest loans (the interest is lower than that of commercial banks) for small and medium-sized enterprises by policy-based banks. By this way, enterprises can obtain sufficient capitals to develop new technologies, rent equipments, and advance capabilities of production machines, improving product qualities. As small and medium-sized enterprises are weak in competition, the government subsidizes them directly by offering long-term and low-interest loans. Along with the growth of small and medium-sized enterprises, the government gradually adopts indirect ways to subsidize them, such as paying deposits, and deposit guarantee.

(3) Create direct financing channels. 99% of enterprises are small and medium-sized in Japan, which is one of characteristics of Japanese economic structure. In Japan, the indirect finance has always held a super station in its financial system after the war, forming a financial institution-centered industrial structure that chiefly offers capitals for large corporate groups. As downstream enterprises, although some small and medium-sized enterprises contribute a lot to the development of large corporate groups, they can not get rid of the short of capitals under the financial system that mainly serves large corporate groups. Therefore, the government collects necessary capitals and forms a complete set of policy-based financial system, aiming at offering loans for small and medium-sized enterprises. Firstly, set up small and medium-sized enterprise investment foster company. In 1963, Japan constituted the Law of Investment Foster Companies for Small and Medium-Sized Enterprises, aiming at enriching capitals needed in enlarging business. According to this law, investment foster companies for small and medium-sized enterprises have been founded in Tokyo, Osaka, and Nagoya, which can benefit the upgrade of industrial structure and help small and medium-sized enterprises to implement stock investment and enrich self-owned capitals, improving their international competence. Besides, the investment foster companies can provide with directions in businesses and technologies for small and medium-sized enterprises. Since the foundation, these companies have developed well and subscribed for unlisted small and medium-sized enterprises' increasing capitals in strengthening their capitals. In Tokyo, from the foundation of investment foster company for small and medium-sized enterprises to 2003, it totally invested 34 billion Yen for 825 enterprises. In addition, after small and medium-sized enterprises list in market, although these foster companies still maintain their positions as long-term investment stockholders, they are not longing for the capital return of investment. Secondly, allow and encourage small and medium-sized enterprises to issue stocks and securities in public. In 1996, the government set up a special venture fund to offer capital support for "venture enterprises" that issue bonds, encourage government financial institutions to offer venture capitals for new-developed high-tech small and medium-sized enterprises, and even directly subscribe for small and medium-sized enterprises' bonds in the name of government. To late 2001, the special venture fund in Japan has exceeded 1300 billion Yen and supported more than 17 thousand venture enterprises totally. Thirdly, set up the second board market out of the main board market. In Japan, the second board market includes over the counter (OTC) and exchange, offering transferring and financing services for small and medium-sized enterprises. Conditions for listing in the second board market are very loose, which makes enterprises that are temporarily to the bad but have development potentials can gain chances of listing in market. Finally, other financing ways, for example, the equipment-renting operations based on the Law of Promoting the Modernization of

Small and Medium-Sized Enterprises can help small and medium-sized enterprises update equipments timely and improve technologies.

(4) The supportive and security legal system for small and medium-sized enterprises. Japan is famous for its name of “Kingdom of Enterprises”. Small and medium-sized enterprises in Japan are the “Kingdom of Kingdom”. Japan’s small and medium-sized enterprises hold irreplaceable positions in economic development and social stability. Therefore, Japan has always emphasized on supporting small and medium-sized enterprises. The government has determined to construct a production and management system that takes large enterprises and groups as the center and backbone, amounts of small and medium-sized enterprises as clusters and bases. This development idea has been completely embodied in Japan’s legislation, policies, and government administration. In Japan, a new organization structure comes into being, which is dominated by large enterprises and pursues common development of small and medium-sized enterprises. From the legal aspect, it strengthens the protection and support for small and medium-sized enterprises. Japan constitutes an integrated and systematic set of laws, regulations, and policies that support small and medium-sized enterprise development. Centering on the Small and Medium-Sized Enterprise Basic Law, six series of laws come into being, five laws in promoting small and medium-sized enterprise innovations and creations, fifteen laws in strengthening small and medium-sized enterprise business bases, seven laws in adapting to economic and social changes, seven laws in capitals supply and enriching free capitals, two laws in supporting small enterprise development, one law in small and medium-sized enterprise administrative organization.

## **2. China’s choice of the finance supportive mode for small and medium-sized enterprises**

(1) The government should promote the legislation process, providing with powerful guarantee for small and medium-sized enterprise development. Market economy is legalized economy. Favorable legal environment is more important than preferential policies. Japan, with a reputation of “the super country in solving problems of small and medium-sized enterprises”, attaches great importance to small and medium-sized enterprises. After the World War II, based on the Small and Medium-Sized Enterprise Basic Law, the National Life Finance Corp. Law, and the Law of Finance Corp. for Small and Medium Enterprise, Japan constructs an organic legal system. Considering changes of national industrial policies and small and medium-sized enterprises, the Japanese government revises the basic law and makes up equipped laws, what proves to be an effective way to solve small and medium-sized enterprise financial problems and promote its sustainable and stable development. Therefore, China should pay more attentions on the financing problems of small and medium-sized enterprises. By constituting perfect and integrated laws and regulations, the government can establish the basic guidelines, policies, development directions, and management principles for the development of small and medium-sized enterprises. Besides, by regulating the small and medium-sized enterprises’ systems, organizational frames, state-supported scope, cooperation, fair competitive environment, interest protection, and modernization process, the government can further support small and medium-sized enterprises to survival and develop.

(2) Create a Chinese finance supportive frame. The difficulties of small and medium-sized enterprises in applying for loans root in two aspects. The first is the guarantee issue. The second is government excessive support for state-owned enterprises in applying loans. Both need to be solved by government. It is necessary for us to reexamine former policies and measures from the strategy and system angle and adjust present financial structure and system. According to the scientific development view, with the precondition of completely exerting the basic effects of market mechanism, by means of deepening financial reform, construct a policy-dominant institutional financial system that is in accord with the market mechanism to the most degree and can make up the “malfunction of market”. On one hand, found independent policy-based financial institutions that serve small and medium-sized enterprises. For the point of enhancing the financial support for small and medium-sized enterprises, it is necessary to found special policy-based banks, which is irreplaceable by other financial institutions. This is the most direct way to solve the financing problems of small and medium-sized enterprises and the common method adopted by developed countries or regions. On the other hand, make present state-owned banks to offer policy-based financing services for small and medium-sized enterprises. Although in policy-based financing aspect the investment of government fiscal revenue is indispensable, we should lighten the burden of the government as much as possible. The government is merely a catalytic converter. In Japan, the government-dominant financing way for small and medium-sized enterprises promotes their investments in equipments. It is well-known that Japan’s manufacture possesses super competitive advantages. One of important factors is the small and medium-sized enterprises in Japan’s manufacture field, which possess lots of advanced equipments and achieve higher productivity. From 60s to 80s in 20th century, Japan’s manufacture industry experienced several times of structural transformations and each achieved a great success, what make Japan sustain its advantages in the manufacture field. Apparently, the government’s policy support for small and medium-sized enterprises in financing aspect contributes a lot to the success. In China, we can also set up similar government institutions specialized in solving the financing problems of small and medium-sized enterprises, providing with government support for the development of small and medium-sized enterprise. Here we should notice one point. All investing and financing activities that could be accomplished by market mechanism should not be interfered by policy-based finance, which can

help to exert the effects of market finance thoroughly. In the aspect of financial costs, Japan's small and medium-sized enterprises depend too much on government capitals in financing, what causes higher pressures on government finance. As a result, Japanese government has to amend the Small and Medium-Sized Enterprise Basic Law for the first time in thirty-six years, converting the support objects in law into enterprises "vitality and diversity".

(3) The government support for small and medium-sized enterprise financing is restricted by government budget, economic system, and development mode. In Japan, government's capital support for small and medium-sized enterprises and the capital support from capital market can complement each other, which is one of Japan's successful experiences in the practice of industrial policies. In China, the government financial resources are not rich. Therefore, China should encourage the development of venture capital companies. Venture capital is the incubator for enterprise growth. In a sense, it becomes another important way to solving the financing problems of small and medium-sized enterprises, except for applying to banks for loans, and government investments. To encourage the development of venture capital companies can help to solve the financing problems of small and medium-sized enterprises. China should offer more preferential policies for the development of venture capital companies.

(4) The development of small and medium-sized enterprises needs to perfect social service system. To develop small and medium-sized enterprises not only needs support of financial policies, but also depend on the perfection of social medium service system. In Japan's service system for small and medium-sized enterprises, the public service institution displays its great influences. It serves as a bridge between the government and small and medium-sized enterprises and is also the main institution that implements small and medium-sized enterprise policies. According to Japan's Directive Law of Small and Medium-Sized Enterprises, the central government should make up a plan to instruct small and medium-sized enterprises in business management and technologies, and the local government at different levels should make up specific implementation plans accordingly. To construct a financing service system for small and medium-sized enterprises in China, we can start from four points. Firstly, governments at different level must change their control over small and medium-sized enterprises and construct a special service system that includes capital financing, credit guarantee, technological support, management consultation, information service, market exploration, and talents training. In addition, governments should offer necessary capital and policy support for the construction of the special service system. Secondly, based on local conditions, governments at different levels should encourage and support scientific research institutions, colleges, and commercial associations to provide with services for small and medium-sized enterprises. By means of technology negotiation, patents, products bidding, and personnel training, governments can offer services in technological innovations and science & technology industrialization for small and medium-sized enterprises. Thirdly, found small and medium-sized enterprise association and make it become a bridge connecting enterprises and government. The association can provide with consultation services in policies, laws, market, technologies, economy, and finance for small and medium-sized enterprises. Fourthly, further regulate mortgage appraisal, register procedure, and operation regulations, decrease expenses of these services, and release enterprises' burden.

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