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## **Towards a Local Financial Institution that Strengthens the Growth Capability of SMEs**

(Summary Translation)

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### 1. Summary of Proposal

Since the bubble economy burst, lending by financial institutions has been decreasing in light of reduced demand for funds, and loans to small- and medium-sized enterprises (SMEs) have not grown. Meanwhile, even after the financial Big Bang, for SMEs in particular, loans, mainly from banks, still account for a large portion of fund procurement, and the ratio of procurement from capital markets has not grown.

However, capital-based funds are essential for supporting the development of SMEs with growth potential in the medium to long term. In this proposal, we propose that local financial institutions that have more information on SMEs strengthen their support of SMEs with unique technology or business models by supplying capital-based funds. Furthermore, we request that the government take the necessary steps for banks to supply funds to SMEs under an appropriate risk-return profile.

### 2. Proposals

(1) Have mainly local financial institutions establish a vehicle (framework) to provide support for SMEs in order to improve growth capabilities and create demand for funds

- Local financial institutions shall play the main role in creating a framework that functions to find companies with growth potential and seeks the expertise to cultivate business from outside experts. For example, local financial institutions shall set up a team to promote such efforts within their institutions. Local financial institutions are not always familiar with companies that can be expected to have growth potential. In order to improve the ability of the local financial institutions to make evaluations of such companies, they shall utilize the knowledge of external experts.

- Once the need for funds necessary to develop business arises, the local institutions shall organize a fund to supply capital-based funds (mezzanine finance, preferred stocks, common stocks, etc.) apart from themselves.

(2) Support increasing fund supply from individuals to SMEs

- In order to enhance collaboration between local financial institutions and movements to gather business funds for SMEs from individuals through websites (cloud funding), local financial institutions shall extend cooperation with companies managing cloud-funding platforms in terms of capital and operations.

(3) Review the support for SMEs after the termination of the SME Financing Facilitation Act

- The SME Financing Facilitation Act terminated as of the end of March 2013 supported the financing of SMEs, but on the other hand, also distorted market principles and fundamental rules of finance in some ways. As for measures to support business rehabilitation after the termination of this act, it is necessary to grasp the possibilities of rehabilitation based on the competitiveness and growth potential of SMEs and to make it compulsory for them to carry out business improvement plans.

(4) Lower the required capital adequacy below the Basel standard

- In order to promote liquidation of credits and management of funds supplying capital-based funds to SMEs, seek to have the relevant required capital adequacy lowered to below the Basel standard.

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