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Nobuyoshi Yamori · Yoshihiro Asai ·
Masao Ojima · Kei Tomimura ·
Koji Yoneda

Roles of Financial Institutions and Credit Guarantees in Regional Revitalization in Japan

Nobuyoshi Yamori
Research Institute for Economics &
Business Administration
Kobe University
Kobe, Hyogo, Japan

Yoshihiro Asai
School of Commerce
Meiji University
Chiyoda-ku, Tokyo, Japan

Masao Ojima
Research Institute for Economics &
Business Administration
Kobe University
Kobe, Hyogo, Japan

Kei Tomimura
Faculty of Business Administration
Aichi University
Nagoya-shi, Aichi, Japan

Koji Yoneda
Faculty of Economics
Kumamoto Gakuen University
Kumamoto, Kumamoto, Japan

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Preface

Japan's regional economy faces serious challenges, such as sharp population decline and super-aging. According to the Statistics Bureau of the Ministry of Internal Affairs and Communications of the Japanese Government, the total population of Japan on October 1, 2017, was 126.706 million, a decrease of 227,000 (−0.18%) from the previous year. This was a decline for the seventh consecutive year. Only seven of 47 prefectures had a population increase in 2017, while the populations of 40 prefectures decreased. These seven “increase” prefectures were Tokyo (0.73% increase), Saitama (0.28%), Okinawa (0.26%), Aichi (0.24%), Chiba (0.16%), Kanagawa (0.15%), and Fukuoka (0.04%), all of which are urban prefectures. In contrast, several rural prefectures, such as Akita Prefecture (−1.40%) and Aomori Prefecture (−1.16%), experienced population reduction at a rate exceeding 1%. Furthermore, the proportion of the population aged 65 or older was the highest, at 35.6%, in Akita Prefecture and is 30.0% or more in 23 prefectures. In 42 prefectures, the ratio of the population aged 75 years or older exceeds the proportion of the population under 15 years old, an increase from 38 prefectures in the previous year.

In response to such a dismal state of rural economies, the Japanese government initiated regional revitalization as one of its most important policy targets. In December 2014, the cabinet formulated the “Comprehensive Strategies for Town, People, and Work Revitalization”. The main pillar of the strategy is the “creation of work”. In other words, the government set forth specific tasks to create jobs with “enough wages, stable employment status, and high satisfaction” to enable young people in rural areas to work free from anxiety. As small and medium enterprises (SMEs) are responsible for the majority of employment in rural areas, a continuous increase of the productivity of regional SMEs is necessary to create “high-quality” employment in rural areas.

It is well recognized that SMEs should play a major role in strengthening the competitiveness of regional industry. Many SMEs have made various efforts, but the situation in rural economies is so difficult that they cannot get solve the problem

with their own efforts alone. Therefore, in the “Comprehensive Strategies for Town, People, and Work Revitalization”, it was indicated that regional industrial groups, governments, academia (e.g., local universities), financial institutions, and labor unions in rural areas should work together to support SMEs.

As a financial supervisory authority, Japan’s Financial Service Agency (FSA) has been trying to contribute to regional revitalization. Indeed, the FSA suggests “exercising an aggressive financial intermediation function to support the growth and metabolism of regional economies and industries” is an important supervisory task and demands that regional financial institutions actively participate and play positive roles in regional revitalization. Responding to the FSA’s request, many financial institutions have been working on strengthening the function of relationship banking and have been providing support to SMEs in their home regions.

The Small and Medium Enterprise Agency (SMEA) revised the Credit Guarantee Act in 2017 to contribute to regional revitalization. The new law requires local credit guarantee corporations to provide adequate management support to SMEs and guarantee bank loans on favorable terms.

Efforts by the government, financial institutions, and SMEs have progressed, but sufficient results have not been obtained. Many researchers have tried to grasp whether the measures taken so far have had any effect and why they have failed. Without this understanding, we cannot reform the revitalization measures. However, necessary information on this matter cannot be obtained from aggregate statistics alone.

Thus, in order to investigate the reasons for failure, we wanted to directly hear the voices of people working on local revitalization. We have repeatedly solicited answers to questionnaire surveys from various groups, and we examine the results of four of these questionnaires in this book. Chapter 1 looks at a questionnaire administered to the headquarters of regional financial institutions. Chapter 2 investigates a questionnaire sent to the staff of regional financial institutions. Chapter 3 explains the revised Credit Guarantee Act of 2017 as a segue to discussing the roles of credit guarantees in supporting start-ups. Chapter 4 analyzes how credit guarantees have contributed to regional revitalization in terms of promoting start-ups based on a survey of start-ups who used public credit guarantees. Chapter 5 reviews a separate questionnaire which was sent to SMEs to find out why they failed to improve their risk management and how financial institutions can help them to prepare for disasters.

This book is unique because the chapters are based on our own questionnaire studies. The information herein is valuable because the research clarifies the roles of regional financial institutions in regional revitalization and suggests how regional financial institutions contribute to regional revitalization.

Finally, we want to note that the book has many implications for countries that aim to create financial systems in which financial institutions support SMEs in cooperation with regional support organizations. In this regard, Japan is one step

ahead of such countries. Although this book analyzes issues of regional finance in Japan, the Japanese experience can be applied to other nations. We believe this book offers many suggestions for financial researchers, financial supervisors, and financial institutions internationally.

Nobuyoshi Yamori
Kobe University
Kobe, Japan

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Cooperation of many respondents is indispensable for questionnaire surveys. In the surveys used in this book, responses were obtained from persons in charge of head offices of regional financial institutions, staff of regional financial institutions, and managers of SMEs. We would like to express our deepest gratitude to these people.

In creating the questionnaire, we gained useful advice from many researchers and businesspeople. In particular, we thank Tomoko Aizawa (Nihon University), Kozo Harimaya (Ritsumeikan University), Nobuaki Hamaguchi (Kobe University), Kazumine Kondo (Aichi Gakuin University), Tadanobu Nemoto (Chuo University), Hikaru Ogawa (University of Tokyo), Yasufumi Ozaki (Kushiro Public University of Economics), Kenya Takaku (Hiroshima City University), Hirofumi Uchida (Kobe University), Shingo Unno (Kagawa University), Scott Wilbur (Yale University), and Mitsuyoshi Yanagihara (Nagoya University).

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About the Authors

Nobuyoshi Yamori is Professor of the Research Institute for Economics and Business Administration, Kobe University. He was born in Shiga Prefecture and graduated from Shiga University in 1986. He received a M.A. degree at Kobe University in 1988 and a Ph.D. in economics at Nagoya University in 1996. Before becoming Professor at Kobe University in 2014, he taught at Himeji Dokkyo University and Nagoya University. Currently, he is also appointed as Visiting Professor at Nagoya University and as Member of the Financial System Council of Japan's Financial Services Agency. He has published many academic articles in international journals such as *Economics Letters*, *Journal of Banking and Finance*, *Journal of Financial Intermediation*, *Journal of Financial Research*, and *Journal of Financial Services Research*.

Yoshihiro Asai is Associate Professor of the Faculty of Commerce, Meiji University. He was born in Nagoya in 1977 and graduated from Nagoya University in 2000. He received M.A. degrees at Nagoya University and the State University of New York at Buffalo and obtained a Ph.D. in economics at Nagoya University in 2006. Before joining Meiji University in 2012, he taught at Josai University. He has published academic articles in journals such as *Journal of Insurance Issues*, *International Journal of Business*, *Journal of Applied Research in Finance*, and *iBusiness*.

Masao Ojima is Researcher at the Research Institute for Economics and Business Administration, Kobe University. He teaches at Himeji Dokkyo University. His hometown is Osaka, and he graduated from Osaka City University in 1975. He received a M.A. degree in 2015 and a Ph.D. in economics in 2018 at Kobe University. Before becoming Researcher at Kobe University in 2018, he worked at a city bank and a steel company. His areas of research interest include regional finance and regional financial institutions. He has published academic articles in journals such as *Journal of Household Economics* and in the RIEB Discussion Paper Series.

Kei Tomimura is Associate Professor of the Faculty of Business Administration, Aichi University. He was born in Okinawa Prefecture and graduated from Shinshu University. He received a M.A. degree and a Ph.D. in economics at Nagoya University. Before joining Aichi University in 2011, he taught at Nagoya University. He has published academic articles in journals such as *International Journal of Finance and Economics*, *Journal of Economics and Business*, *Applied Economics Letters*, *Banks and Bank Systems*, and *iBusiness*.

Koji Yoneda is Assistant Professor of the Faculty of Economics, Kumamoto Gakuen University. He received a Ph.D. in economics from Nagoya University in 2009. Before becoming Assistant Professor of Kumamoto Gakuen University in 2015, he worked at the Economic Research Center, School of Economics, Nagoya University. He also worked at the Research Institute for Economics and Business Administration, Kobe University, as Part-time Lecturer from 2015 to 2018. He has published academic articles in journals such as *Applied Economics Letters*, *Empirical Economics Letters*, and *Japanese Journal of Labour Studies*. His research interests include the labor market for new graduates, personnel management in financial institutions, and efficiency analysis of public hospitals.