<u>EXTRACT FROM THE RESEARCH:</u> *BOOSTING GROWTH IN JAPAN AND LATVIA: THE ROLE OF PUBLIC-PRIVATE FINANCIAL ENGINEERING*[1]

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The following extract addresses the fiscal and monetary policy measures for public-private financial engineering instruments (PP FEIs) in **Japan**, providing detailed information on the entrepreneurial assistance programmes, and following with the discussion of future challenges.

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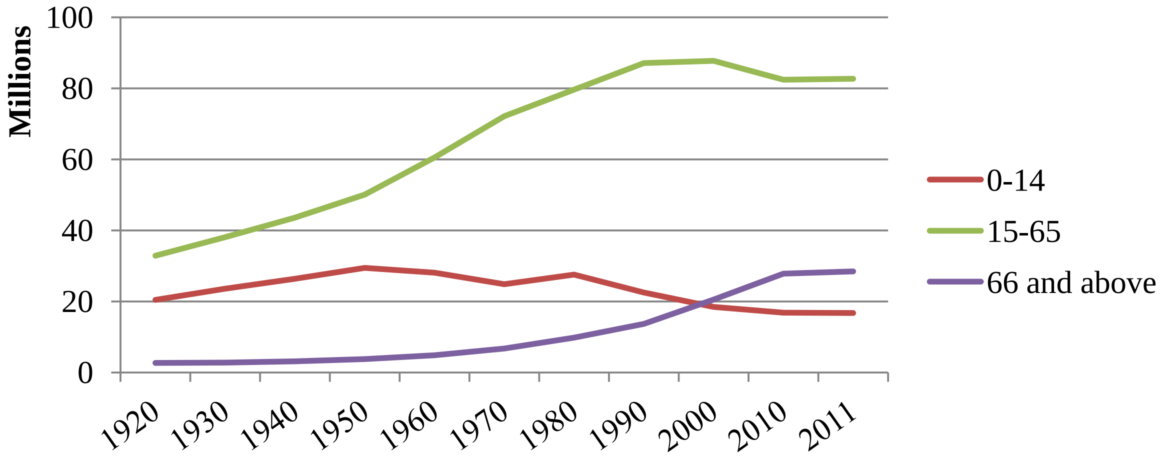
I. FISCAL MEASURES IN JAPAN

Fiscal policy measures are government economic activities created to address market failures in order to facilitate and strengthen the economical growth. That includes direct government assistance either by providing budget revenues or assisting with market-raised funding.
Fiscal measures described below include history and legal ground, information on management, type and field of financial assistance, programme budget and performance metrics.

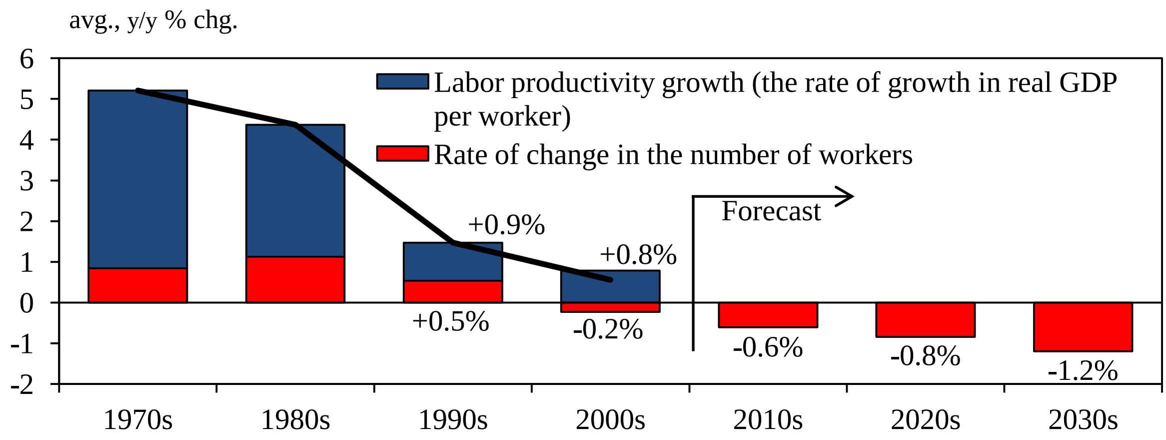
Japanese economy has been stagnant for 15 years. Japanese population is aging and expected to shrink rapidly (from 125.7 million inhabitants in 2013 falling to 92.2 million by 2015), while public debt remains on the world's highest levels (238 percent of GDP by the end of 2012[2]).



Graph 1, Japan population by age (1920--2011)
Source: Japan Statistics Bureau and Director-General for Policy Planning[3]

In order to reach a two percent labour productivity improvement in the medium- to long-term, and around two percent of real GDP growth on the average of next 10 years, in Japan's Growth Strategy there have been set key performance indicators to be achieved for each set of policies. Increase of productivity in all types of production is essential for Japan to cover the aging population's negative effect on potential growth, and to move towards the debt sustainability.

[2] International Monetary Fund, World Economic Outlook Database, April 2013
[3] Japan Statistical Yearbook, Chapter 2: Population and Households, The Statistics Bureau and the Director-General for Policy Planning of Japan, available on http://www.stat.go.jp/english/data/nenkan/1431-02.htm, last viewed 1.11.2013.



Graph 2. Decomposition of real GDP growth in Japan (y/y, percent changes).
Source: Bank of Japan

Therefore, the increased role of PP FEIs in Japan falls within complete compliance with the Growth Strategy goals.

PP FEI programmes in Japan are implemented through the Fiscal Investment and Loan Programme (FILP) - a long term, low interest loan and government investment programme providing financial support for those having difficulties to obtain private funding[4].

Fiscal Investment and Loan Programme (FILP)

The history of FILP dates back to the Meiji Era (1868-1912), when Japan became more open and modernised, and government entered the undeveloped market of private financial institutions by providing custody funds. In 1951 the Trust Fund Bureau Fund Act was enacted, establishing Trust Fund Bureau Fund for unified management of state funds and defining the principle of investing in secure and efficient ways by contributing the public interest. In 2001 the FILP Reform Act (2001) introduced changes, establishing the Fiscal Loan Fund, further setting the issuance of FILP bonds, and eliminating requirement of all Postal savings[5] and Pension funds to be deposited with the Trust Fund bureau. New funding scheme reduced each year's gap between assets and liabilities. However the issuance period of FILP bonds is 2 years, 5 years, 10 years (most popular), 20 years and 30 years as bullet maturity repayment type cash flows. While the majority of loans are of equal repayment type cash flows. As such, it was difficult to completely eliminate the gap, and a certain level of interest rate risk still continued to exist. Therefore, based on the "Act on Special Accounts", profits are accumulated as reserves (Reserves for Interest Variance) to prepare for any loss which may arise in the future. In case the amount of reserves exceeds the level required to

[4] FILP report 2012, Financial Bureau, Ministry of Finances of Japan, available on http://www.mof.go.jp/english/filp/filp_report/zaito2012/index.html, last viewed 30.10.2013., Page 3

[5] In Japan the post savings held 198 trillion yen ($1.7 trillion) of deposits as of June 2006, the world's biggest pool of capital. (Mariko Yasu, Ichiro Suzuki, Japan Bank Lobby's New Chief Wants Brokerage Barriers Lifted, April 2007, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aX3KUDDDPwQk&refer=japan), securing about 28 percent of Japan's household savings. The government was criticized for using these funds to engage in uneconomical infrastructure projects (Hans Griemel, Privatization of Japan's postal colossus sparks competition fears, Taipei Times, March 2007 http://www.taipeitimes.com/News/editorials/archives/2007/03/31/2003354703/1)

secure financial soundness, the excess amount could be transferred to the Special Account for Government Debt Consolidation Fund pursuant to a budget.

To increase the sustainability of government supported investments, with the FILP Reform Act the policy cost analyses were introduced, requesting an ex-ante assessment of financial, social and economic benefits of each implemented-to-be project.

General management of the FILP programme is given to the Financial Bureau of the Ministry of Finances, while advisory and auditing duties are assigned to the Fiscal System Council FILP sub-committee (established in 2001; currently consisting of 14 members, including universities and think-tanks, mass media, and experts of the field, including company for start-up support). The next level management lies within more than 140 government-affiliated financial institutions – the FILP agencies (government, local government and government related institutions) – still supervised by the relevant ministries. Number of agencies can change annually, depending on policy goals and institutions needed to meet these goals. New agencies are established according to the procedures defined under the Article 10.1 of the FILP Reform Act. Finally - the beneficiaries: companies, municipalities and even individuals.

FILP programme provides the following assistance:

- establishment and growth of SMEs, with a special assistance to socially vulnerable groups like women, youth and senior;
- agriculture, forestry, fishery by supporting capital investments;
- education by providing interest-bearing scholarship loans;
- welfare and medical care to maintain the needs of children and elderly;
- airport and urban renovation large-scale projects assisted with long-term loans;
- industries and research & development maintaining Japan’s competitiveness;
- overseas projects.

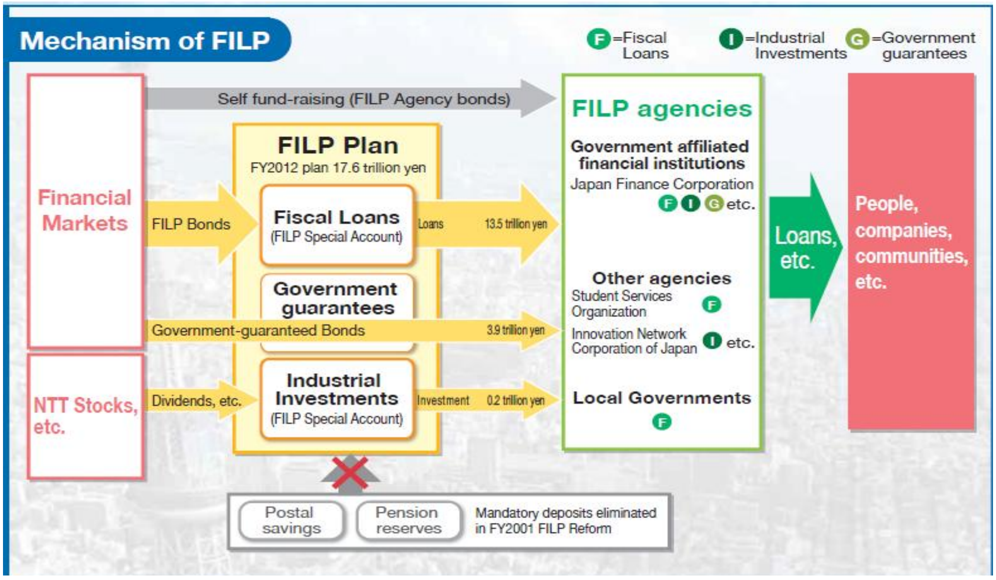
FILP financial assistance is provided in accordance to the following types of sub-programmes:

1. Fiscal Loan Fund:
    - Main revenues: government guaranteed FILP bonds. In addition to FILP bonds there are also FILP agency bonds with no governmental guarantee for repayment, introduced by the FILP Reform in 2001, and providing additional fund-raising mean for FILP agencies. However, the costs of FILP agency bonds are higher than those on governmental fiscal loans, and it is always necessary to decide the amount of bonds to be issued considering effect and procurement costs. Starting October 2000, according to the Guidelines on Eligible Collateral, the Bank of Japan is eligible to obtain the FILP agency bonds as collaterals with residual maturity of 80-90 percent of the market price depending on category of collateral[6];
    - Main expenditures are transfers into the Fiscal Loan Fund to provide fiscal loans through the FILP agency's programmes (for example: Japan Finance Corporation, providing loans to SMEs)

[6] Bank of Japan, Establishment of "Guidelines on Eligible Collateral", Table 1, October 13, 2000

2. Industrial Investment Fund:
    - Main revenues: profit payments of the Japan Finance Corporation, dividends of Japan Tobacco Inc. and Nippon Telegraph and Telephone Corporation into the National treasury account[7];
    - Main expenditures are industrial investments by the long-term loans, mostly for big infrastructural project in transportation, health and environment, also for large overseas project (for example: Japan Bank for International Cooperation, as one of the government-affiliated agencies, supported the project of ultra-deepwater floating production, storage and offloading off the coast of Rio de Janeiro);
    - Industrial investments are mostly provided as loans; however the involvement may take also the form of grants. The FILP agency and corresponding ministry would review annually the potential projects-to-be, and decide if the agency should apply for the grant or loan programme. If the project is not expected to generate a profit, it is eligible for grant or subsidy from the General Government. However if the project is able to generate profit, is essential to the policy goals and cannot be funded sufficiently by the private sector alone, the agency would decide to apply for revolving assistance of the Industrial Investment Fund.

3. Government guarantees:
    - Main revenue: government-guaranteed bonds issued by government-affiliated financial institutions etc, for raising the necessary business capital;
    - Lately the use of guarantees has been limited, since they are off-balance and cost more than FILP bonds.
    - However there are also guarantees targeting SMEs, issued by the Credit Supplement System guaranteeing liabilities of loans to SMEs issued by the financial institutions.



Graph 3. Mechanism of the FILP
Source: FILP Report 2012, Japan Ministry of Finance

[7] FILP report 2012, Financial Bureau, Ministry of Finances of Japan, available on http://www.mof.go.jp/english/filp/filp_report/zaito2012/index.html, last viewed 16.10.2013., Page 5

The Fiscal Loan Fund is the instrument directly targeting assistance to the SMEs, micro and individuals, as a part of the total activities supported. The size of the fund, though, is decided annually. FILP agencies submit their FILP bond requests to the Ministry of Finance (MoF) simultaneously with the Ministries' submitting budget request. FILP agencies are required to perform the ex-ante policy cost analyses before submitting the annual FILP Plan. Each agent should estimate the future cash flow and calculate the policy costs as the result of the following[8]:

- subsidies expected to be disbursed by the government in the future;
- payment to treasury and corporate tax expected to be paid in the future;
- interest alleviation effect through investments (i.e., opportunity costs from the perspective of the government, since loans to the finale beneficiaries are provided below the market price).

Between September and December, MoF examines FILP requests, performing policy cost analyses and policy evaluation, and negotiating them with the relevant policy ministries. Evaluation of FILP requests include following criteria:

- funding will be used for complementary projects to private sector;
- subsidiary principle is observed, i.e., objectives can be better reached at the national level;
- agency is able to generate income to secure repayment.

If the FILP bond request meets criteria, it is eligible to remain on the FILP bond plan. The FILP bond plan is developed simultaneously with the state budget procedures, therefore by the end of December the FILP Plan, as part of the Budget, is submitted to the Cabinet Meeting, and by January - submitted to the Diet (the Parliament).

At the end of the fiscal year (March) FILP agencies provide financial statements of the previous FY using unified standards of private sector accounting. These reports are subject to audits by certified public accountants. In according to the FILP Transparency Action Plan (April 16, 2010) easily understandable information should be provided also during the year to the general public, including information on agency balance, future funding plans, priorities, and also on-site monitoring reports from the end beneficiaries.

In recent years the size of FILP flows has not decreased, coping with the severe economic and financial conditions since the Lehman Shock, and actively supporting recovery from the Great East Japan Earthquake in 2011. According to the FILP plan for FY2013 the total amount planned for is EUR 138 million[9] (18,389.6 billion yen) or 3.9 percent of the forecasted Japan GDP for 2013[10]. It is a four percent increase compared to the FY2012 initial plan. Increase is mostly due to big, industrial investments gaining sharply by 46 percent[11]. Meanwhile, it is expected to see an even higher increase on industrial investments due to Olympic Games to be held in Tokyo in 2020, facilitating economical activities through public procurements, but eliminating public assistance through direct loan programmes to SMEs. However the accessibility to financial resources by SMEs is crucial for economic development. It has been

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[8] Policy costs = Subsidies – Payments + Opportunity costs. FILP Report 202, Financial Bureau, Ministry of Finances of Japan, Page 21

[9] Bank of Japan exchange rates on 11.11.2013., available at http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf

[10] World Economic Outlook Database, October 2013, International Monetary, available at http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/weorept.aspx?sy=2011&ey=2018&scsm=1&ssd=1&sort=country&ds=.&br=1&c=158&s=NGDP_R%2CNGDP_RPCH%2CNGDP&grp=0&a=&pr.x=60&pr.y=6, last viewed on 9.12.2013.

[11] FILP plan 2013, Financial Bureau, Ministry of Finances of Japan, available at http://www.mof.go.jp/english/filp/plan/fy2013/zt001.pdf, last viewed on 15.10.2013.

acknowledge, that investments in entrepreneurial activity increase economic efficiency and competitiveness, thus accelerates growth[12]. In Japan, today there are long-established companies with a history of over a hundred years, however in the past also corporations such as Toyota, Honda, and Sony started as small backstreet factories. Accounting for 99.7 percent of all companies, 70 percent of all employees, and more than 50 percent of total added value (manufacturing industry), SMEs form the very basis of the Japanese economy[13]. Today, the majority of products of large corporations consist of components produced by SME subcontractors. Thus it is the hidden strength of SMEs that underpins trust in Japanese products[14].

According to the information from the Japan Finance Corporation and Bank of Japan, the total outstanding amount of loans issued to SMEs by the end of FY2012 were EUR 1,763.0 million (235 trillion yen)[15]. Loans are provided mostly by three major market players: private financial with 90.5 percent share of total funding, Japan Finance Corporation with 5.4 percents and Shoko Chukin Bank with 4.0 percent of total assistance. The triangle of sources originated after the government agency reform in 2008, consolidating and privatizing government-affiliated agencies in order to decrease the bureaucratic apparatus in Japan. Meanwhile Japan Finance Corporation holds the fourth biggest share out of the total annual FILP bond plan, and provides the widest PP FEIs programme to foster entrepreneurship in Japan. Besides, several new measures have been established in the market to meet specific objectives of industrial policy, including Business Angels for venture capital.
Recently, government has launched also a web page Mirasapo (www.mirasapo.jp), providing information about support offered by the government-affiliated institutions. Assistance in the portal can be requested by themes or by types of measure. There is also planned to announce mentoring services providing business advices from experts and experienced entrepreneurs. The full version of Mirasapo is due to start operating by fall 2013. Since target audience is domestic, no official translation in other languages will be provided. Some individual PP FEIs schemes provide basic information in English; however application procedures require a good knowledge of Japanese language, including as from Japan Finance Corporation.

1.1. Japan Financial Corporation

Japan Finance Corporation (JFC) is a public corporation wholly owned by the Japanese government. It was established on October 1, 2008, as the result of the merger of four policy-based financing institutions. JFC fulfils its role as a policy-based financial institution facilitating funding to the general public, SMEs and agricultural, forestry, and fishery businesses, based on national policies in addition to assistance for reconstruction from the

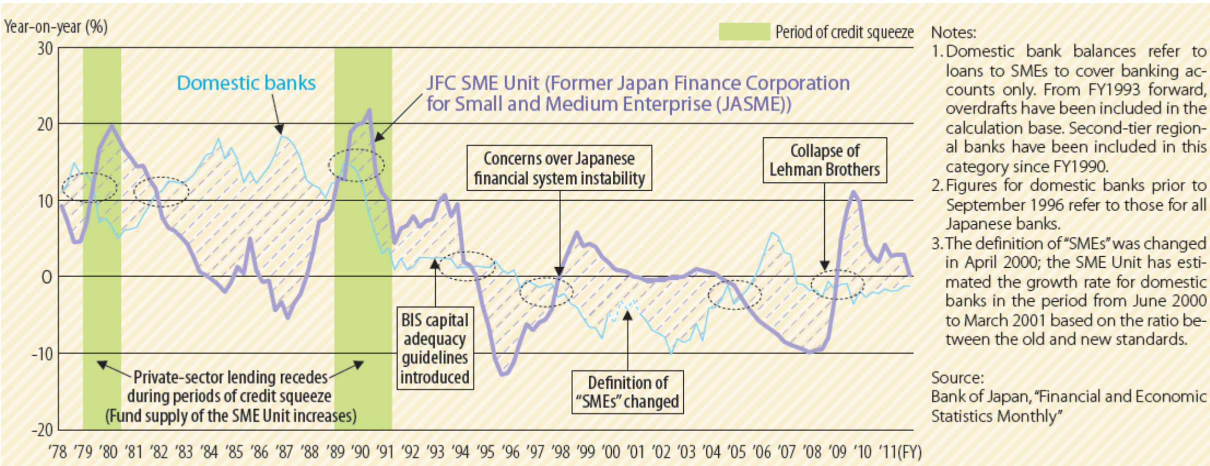
[12] Operational Programme „Entrepreneurship and Innovations", available on http://www.esfondi.lv/upload/04-kohezijas_politikas_nakotne/op/2_dp_2009-07-28_ENG.pdf , last viewed 12.11.2013., Page 119
[13] Ministry of Economy, Trade and Industries, available on http://www.chusho.meti.go.jp/sme_english/outline/04/20131007.pdf, last viewed 8.11.2013.
[14] Ibid
[15] Bank of Japan data base, Japan Financial Corporation Guide to the Operations of the SME Unit, 2013, Exchange rate by the Bank of Japan on 11.11.2013. http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf

Great East Japan Earthquake[16]. JFC Head Office is located in Tokyo, while the institution has 152 branch offices across Japan.

The Japan Finance Corporation Acts (2007) stats that the national government must always own all shares issued by JFC, making JFC a chartered corporation under the strict control of the government as the shareholder. Monitoring duties are assigned to the following entities:

- Board of Directors consisting of 18 members, two of whom are external officials;
- Audit and Supervisory board, comprised of four members, three of whom are external members;
- Evaluation and Review Committee, consisting of 12 external advisers, coming from universities, law institutions, manufacturers, and also one journalist[17]. The Committee examines whether the corporations' management and operations have performed efficiently and according to policy goals.

JFC budget is made through various sources of government funding - the Fiscal Loan Fund (FILP bonds), government-guaranteed bonds, and capital contribution from the government for reconstruction projects after the Great East Japan Earthquake – and FILP agency bonds issued by the JFC. Revenue for JFC for FY2013 is planned at 95 percent or EUR 48,980 (6.53 billion yen[18]) received through the government assistance programmes, with the remaining 5 percent obtained through FILP agency bonds, mostly with 2-years maturity[19]. On May 2013 rating of JFC by Moody's Japan was at the Aa3, which means a stable level and rather favourable interest rates. Meanwhile the planned issuance of FILP agency bonds for FY2013 is expected to be smaller versus FY2012. As explained in the JFC expert interview,[20] there are changes in market condition leading to more extensive crediting of the commercial banks (partly facilitated also by the BoJ programmes), also projects supported under the Great East Japan Earthquake assistance slowly coming to their final stage. JFC programmes in the past years have served as a countercyclical tool, boosting supply of funds in periods of banks credit crunch, or when financial institutions are positioned for risk aversion, and limiting when market conditions improve.



Graph 4. Growth rate changes in outstanding loans to SMEs (y-o-y changes, percent)

Source: JFC Guide to the Operations of the Small and Medium Enterprise Unit, 2012

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[16] Japan Finance Corporation, http://www.jfc.go.jp/n/english/philosophy.html

[17] as on June 2013

[18] Exchange rate set by the Bank of Japan on 11.11.2013. http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf

[19] Japan Finance Corporation Annual Report 2013, September 2013

[20] Materials from the Japan Finance Corporation expert interview, held on 25.10.2013

On the expenditure side of JFC, the amount of outstanding loans by the end of FY2012 was EUR 163.2 million (21,750.5 billion yen[21]), providing support for micro, small and medium businesses, also for agriculture, forestry, fisheries and food. Enterprises are strongly leading JFC's portfolio, equally divided between assistance to Small and Medium and Micro credits, and accounting for 5.4 percent of total loans issued in Japan by the end of FY2012. Meanwhile the number of cases supported by JFC programmes account for 25 percent of total market deals[22], increasingly by 18 percent compared to the previous year, mostly due to SMEs programmes. The total number of business loan borrowers by the end of FY2012 exceeded one million[23], the highest level recorded since the onset of the global financial crisis in late 2008, however expected to decrease in nearest future due to positive changes in the financial market.

The risk management of JFC performance shows that the average rate of risk-monitored loans is at 9.5 percent out of total outstanding loans by the end of FY2012. The highest risks are observed in the Micro Business and Individual unit (10.4 percent), closely followed by SMEs (10.3 percent). Bankrupt loans account for the 4.1 percent of the total risk-monitored loans or only 0.3 percent of total outstanding loans, mostly observed within the Micro loan programme (1.7 percent of risk-monitored loans). It is a rather good indicator, bearing in mind that 74 percent of Micro loans are disbursed with no collateral needed. In addition, in 2012 JFC launched temporary measures according to the changes is SME Financing Facilitation Act[24], introducing modifications of the repayment conditions for customers facing cash flow difficulties. Since then, around 92,000 loans there have seen their repayment periods extended, and instalment payment reduced[25].

The following session will provide detailed information on the two most important JFC PP FEIs: the Micro and the SMEs support programs.

1.1.1. Micro Business and Individual Unit

The Micro Business and Individual Unit (JFC-Micro) provides business loans to micro/small businesses and business start-ups, and special loans for a wider public, including educational loans to individuals who are in need of funds for school entrance fees and other educational expenses.

Business loans offer both: working loans to cover operational expenses, usually up to 5 years term, and equipment loans for buildings, machinery, and land purchase for a period of up to 10, or in some cases 20 years. Provided funding rarely accounts for 100 percent of the total finances needed and requires some co financing, however it is decided case by case. Loans are

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21 Exchange rate set by the Bank of Japan on 11.11.2013. http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf

22 Materials from the Japan Finance Corporation expert interview, held on 25.10.2013.

23 Japan Finance Corporation Annual Report 2013, September 2013

24 "Act concerning Temporary Measures to Facilitation Financing Small and Medium-Sized Enterprises" available at the web page of the Ministry of Economy, Trade and Industry, available on http://www.meti.go.jp/english/press/2012/0420_07.html, last viewed 28.10.2013.

25 Japan Finance Corporation Annual Report 2013, September 2013, Page 11

given with no collateral and collateral, depending on the loan type. Collaterals are mostly real estate, securing the loan for 60-70 percent of collateral value, or a third-party guarantee. Loans are provided for corporations and individuals, after evaluation of their financial statement as the quantitative criteria and management skills as the qualitative criteria.

Table 1: Business loans provided by the Micro Business and Individual Unit of the Japan Finance Corporation[26]

Type of loan	Specific note	Maximum amounts available
General Loans	Available for almost all industries for working capital and equipment	EUR 360 thousand (48 million yen), and EUR 540 thousand (72 million yen) for specific equipment
Safety-net Loans	Provided for corporations and individuals suffering from changing business environment due to declining sales or the bankruptcy or trading partners.	EUR 360 thousand (48 million yen)
Special Loans	Consists of five sub-programmes	
New business nurturing loans	Designed to support corporations and individuals starting or willing to start a new business within five years. Measure includes also special assistance for women, people under 30 and people over 55 years, and additional assistance for restarting business after closing down, or establishing a second business due to diversification or business change	EUR 150 thousand (20 million yen) for re-fresh start, and up to EUR 540 thousand (72 million yen) for first start-ups.
Business vitality strengthening loans	Support for restaurants, wholesales, retail, business services and shops willing to expand and in need of new equipment, building or more employees. Measure includes special assistance to the IT sector.	Up to EUR 540 thousand (72 million yen)
Environment and energy loans	Support for individuals and corporations purchasing energy-saving or non-fossil equipment, or aiming to promote the environmental improvements	Up to EUR 540 thousand (72 million yen)
Business Revitalization loan	Support for succeeding or restructuring businesses	Up to EUR 540 thousand (72 million yen)
Loans for modernisation or grocery	Support for expanding or franchising food production, retail of flowers and plants	Up to EUR 540 thousand (72 million yen)

[26] Exchange rate set by the Bank of Japan on 11.11.2013. http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf

retailers		
Managerial Improvement Loans (MARUKEI Loans)	Loans for improving competitiveness, provided without collateral or guarantors on the base of a formal recommendation from the head of local Chambers of Commerce and Industry (CCI) or Societies of Commerce and Industry (SCI). MARUKEI loans are available as working and capital loans.	Up to EUR 112.5 thousand (15 million yen)
Environmental Health Business Loans	Equipment loans, designed to improve public hygiene and sanitation levels of restaurants, barbershops, beauty centres, laundries, etc. and health institutions	Up to EUR 540 thousand (72 million yen)

In addition to business loans, JFC-Micro provides also other types of loans supporting broader range of people.

Table 2: Special loans provided by the Micro Business and Individual Unit of the Japan Finance Corporation[27]

Type of loan	Specific note	Maximum amounts and lending period available
The Great East Japan Earthquake Recovery Special Loan	Loans for those affected by the Great East Japan Earthquake, including individuals applying for the educational loans and SMEs from the disaster area.	Up to EUR 450 thousand (60 million yen), for the working capital repayment period up to 15 years
Education loans	Provided to lighten the financial burden of educational expenses during the school and university period. Around 110,000 educational loans are provided each year[28].	Up to EUR 22.5 thousand (3 million yen) per student, can be renewed after partly repaid, totally up to 15 years (or up to 18 years for single-parent households)
Loans Secured by Governmental Pensions or Mutual Pensions	JFC is the only organization in Japan that is authorized to make loans securitised by pensions. Repayment period depends on the borrowers, because payments are redemptions from the pensions; meanwhile loans are subject of insurance.	Up to EUR 18.8 thousand (2.5 million yen), but not more than the pension received for three years.

[27] Exchange rate set by the Bank of Japan on 11.11.2013. http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf
[28] Japan Finance Corporation, http://www.jfc.go.jp/n/english/profile.html

Above all JFC facilitates collaboration between industries and academia by providing loans to university-initiated venture companies. As of end of May 2013 there were 45 universities joined the industry-academia collaboration memorandum.

In FY2012 approximately 90 percent of micro loan borrowers were businesses with nine or fewer employees, and approximately 40 percent were sole proprietorship, acting in the service sector. Support provided to senior entrepreneurs (55 and over) had increased by 17 percent versus FY2011[29], challenging the idea of entrepreneurial zeal being solely a youthful attribute. The average loan per business in FY2012 has been EUR 50 thousand (6.66 million yen). Breakdown of loans (in numbers) by industries in FY2012 shows the highest share within wholesale and retail (49 percent), followed by manufacturing (30 percent) and services (15 percent). More start-ups have been created in cities, rather than in rural areas.

Special support for Female entrepreneurial activities

Under the Japan Revitalisation Strategy, a vital condition on the roadmap to growth is "participation by all" and use of the unleveraged potential of the "power of women". The JFC-Micro strongly encourages revitalization and modernisation of shopping districts, seen as the main business activity for individuals and micro entrepreneurs. But it is also expected to have a stronger growth and employment within the nursing care and welfare sectors. Meanwhile there is a high expectation that women will re-enter the labour market and help to revive the Japanese economy, using the micro loan support system whenever feasible.
According to the Global Gender Gap Report 2013[30], Japan ranks in the 105th place out of 136 countries observed in the Index, while Latvia is 12th. This means that the gender-based gap in access to resources and opportunities in Japan is really wide, and has been increasing in the last 3 years. The IMF working paper "Can Women Save Japan?" provides case study calculations on the potential women contribution to economy: "If Japan were to raise its Female Labour Participation (FLP) ratio to G7 level (excluding Italy and Japan), the impact on the potential GDP growth would be about 0.2 percentage point. Raising FLP rates further - to the level of northern Europe, say - could increase potential GDP growth by even 0.4 percentage points." [31] The IMF estimations may sound boastful, but authors refer to the recent case of Netherlands, experiencing a similar dramatic increase in the past few decades due to easier access to part-time jobs or home based offices.
In FY2012, low-interest loans made available to women starting business through JFC-Micro have increased by 21 percent vs. FY2011. The assistance provided for women was double than for youth and 3 times higher than for seniors, however still having a tiny share out of the total number of supported companies (0.3 percent). Nevertheless, JFC is expected to contribute to the Prime Minister's Abe message of *Womenomics* as an essential part of *Abenomics.*

[29] Japan Finance Corporation Annual Report 2013, September 2013, Page 22
[30] World Economic forum, Global Gender Gap Report 2013, available on http://reports.weforum.org/global-gender-gap-report-2013/ , last viewed on 7.11.2013.
[31] Steinberg C., Nakane M., Can Women Save Japan?, IMF, 2012, available at http://www.imf.org/external/pubs/ft/wp/2012/wp12248.pdf , last viewed on 7.11.2013., Page 5

1.1.2. Small and Medium Enterprise Unit

"SMEs are the source of Japanese economic vitality and the cornerstones of regional economies" – following this belief, the Small and Medium Enterprise Unit of JFC (SME Unit) provides financial support to SMEs by offering diverse services, including loans and credit insurance.

According to the Small and Medium Enterprise Agency's view, SMEs are at a disadvantage versus larger enterprises, when it comes to gaining access to funds from capital markets. Therefore JFC is expected to provide long-term, fixed-interest business funds for the business growth that private financial institutions would have difficulties providing. JFC Quarterly survey on SME Trends FY2012 shows that private financial institutions tend to prefer short-term loans of one year or less, accounting only 16 percent for five years and longer term loans with the fixed interest rate, thus making it difficult for SMEs to raise sufficient long-term funds. Meanwhile, over 50 percent of SME Unit’s loans have lending periods of five years and longer. JFC provides fixed-interest rates decided case-by-case according to the following criteria: company’s credit rating; duration of loan; and the value and quality of collateral. In average, interest rates are just below the private sector, and decided during the interview which examines management skills of the applicant's top managers. Before the interview, the following documents are expected to be submitted: financial statement, documents on collateral, and a business plan. It is not necessary to supply a letter of intent from any potential trading partner, nor any licenses needed for running a restaurant or similar.

The JFC SME Unit provides the following type of assistance to the SMEs:

- Special-purpose loans programme
- Securitisation and Credit Supplement System

Following changes in the SME Basic Act in 2013, special attention was given to Small enterprises (SEs), whose number and employees has been decreasing recently. Several policy areas were added - overseas business, utilizing IT, facilitating business success - eligible for favourable governmental assistance especially designed for SMEs.

SMEs Special-purpose loan programme

SME Unit provides loans of a similar type as the JFC-Micro programmes business loan programme, including venture business and new businesses development, innovations, business revitalisations, countermeasures against natural disasters, capital investment to promote employment etc., but for a wider scale and a longer period. Maximum loan amount available under the SMEs programme is up to EUR 5.4 million (720 million yen), while maturity period for the working capital is extended to 7 years, or 20 years for equipment. However there are some programmes aiming for the higher level investment (for example: loans for environment and energy providing funding to companies planning to install energy conservation equipment or designated pollution control equipment, rather than only improving the public hygiene and sanitation levels), and additional SME programmes established for specific measures.

Table 3: Business loans provided exclusively by the SME Unit of the Japan Finance Corporation[32]

Type of loan	Specific note	Maximum amounts and lending period available
Loans for Overseas Investment (under the Vitality programme)	Designed to support companies that engage in overseas business development in their efforts to adapt to structural shifts in the economy.	EUR 5.4 million (720 million yen) up to 15 year for facility fund and 7 year for working capital
Loans to Support Corporate Rebuilding/Accession of Bankrupt Business (under Corporate Revitalization Loans)	Support for companies undergoing management improvement or business turnaround and having acceded the operations of bankrupt business and companies acquiring equity capital from shareholders.	EUR 5.4 million (720 million yen) up to 20 year for facility fund and 15 year for working capital

SME Unit also proactively supports SMEs dealing with internationalisation, including information on the overseas market and direct loans for overseas expansions. Starting with FY2012, the overseas measure also provides a Credit Guarantee Letter, assisting SMEs' overseas subsidiaries to obtain local currency denominated funds from the JFC's partnering financial institutions, like KB Kookmin Bank in Korea, Bangkok Bank in Thailand, United Overseas Bank in Singapore etc.

Also, special attention has been given to the support initiative for business revitalization. The Japan's Small and Medium Enterprise Revitalisation Council manages revitalisation support through access to loans and decreased taxes. By the end of December 2012 the SME Unit participated in provision of support to 1217 companies or 33.9 percents of totally assisted loans within the revitalisation support programme. IN addition, in June 2013, the JFC Act was amended adding also a debt-for-equity swap (DES) feature. A DES is the exchange of a company's debt for equity. The transfer of debt to shares in a company with potential for revitalisation is expected to improve the company's financial condition.

Regarding collaterals, the SMEs loan system does not excessively rely on real estate, contrarily to JFC-Micro loans. For Special-purpose Loans the SME Unit recognizes also machinery and equipment, inventories and intellectual property rights as collateral. At the same time, the SME Unit continues to adopt an increasingly flexible approach through the introduction of "no-collateral provision."

In FY2012 around 80 percent of loans had been given to enterprises with more than 20 employees, and around 90 percent having capital of 10 million yen or more. In terms of industries, most loans were disbursed to the manufacturing (49 percent of total), while secured loans are mostly used in the wholesale and retail (31 percent). Working capital requested through operating fund accounts for 65 percent of total loans, which shows the lack of cash to increase the value rather the need of new machineries, a similar issue for the JF-Micro enterprises. As compare to FY2011 no significant changes had occurred.

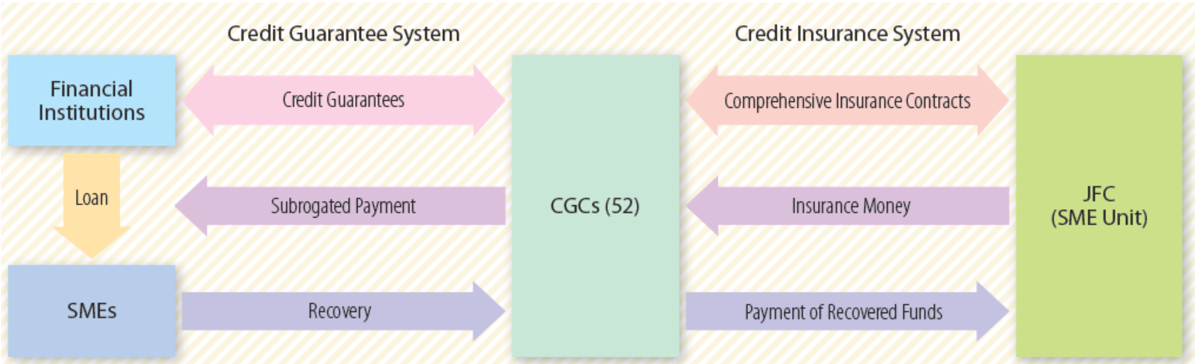
[32] Exchange rate set by the Bank of Japan on 11.11.2013. http://www.boj.or.jp/en/statistics/market/forex/fxdaily/2013/fx131111.pdf

JFC experts believe that businesses in Japan are willing to address firstly the banks, leaving the government as the last source of funding. It is proven with the increasing amount of JFC unused budget, accounting for already 15 percent last year.

Securitisation and Credit Supplement System

SME Unit insures guarantees provided by Credit Guarantee Corporation for liabilities to SMEs that fall short in terms of collateral or creditworthiness, when raising funds from financial institutions or issuing corporate bonds.
Credit insurance measure has been provided within the Credit Supplement System that has been created by combining activities of Japan Finance Corporation insuring SME credits and Credit Guarantee Corporation providing surrogated payments to the banks. Credit Supplement scheme is playing a vital role in the Japanese government's SME finance policy.

By the end of FY2012, 36 percent of all SMEs in Japan had raised funds with the support of the Credit Guarantee System[33].



Graph 5. Credit Supplement System of Japan.
Source: JFC Guide to the Operations of the Small and Medium Enterprise Unit, 2012

The credit guarantee system in Japan dates back to the establishment, in 1937, of Credit Guarantee Corporation (CGC) of Tokyo. By the end of FY2012 there were 52 CGCs, one for each prefecture and one in each of the cities of Osaka, Nagoya, Yokohama, Kawasaki, and Gifu[34].

The Credit Guarantee System was revised in 2008, expanding CGCs operations. Today CGCs guarantee loans from financial intuitions to SMEs, make surrogated payments against defaults of SMEs, and subsequently recover funds from the SMEs in case of bankruptcies. CGC is supervised by central and local governments, and receive contributions from local governments and financial institutions.
The Japan Finance Corporation according to the revised system insures guaranteed liabilities provided by the CGCs according to the SMEs Credit insurance Act No. 264 of 1950.

[33] Credit Guarantee System in Japan in 2013, Credit Guarantee Corporation, available on http://www.zenshinhoren.or.jp/english/document/anual.pdf , last viewed on 30.10.2013.
[34] Credit Guarantee System in Japan in 2013, Credit Guarantee Corporation, available on http://www.zenshinhoren.or.jp/english/document/anual.pdf , last viewed on 30.10.2013. , Page 2

A key characteristic of the credit guarantee system in Japan is that it is actually a combination of the credit guarantee system operated by CGCs, which was mainly established through financial assistance from local government, and the credit insurance system operated by the Japan Finance Corporation, an institution owned by the national government. The combination of these two systems is referred as the Credit Supplementation System.

1.2. Shoko Chukin Bank

The Shoko Chukin Bank (SCB) is a financial institution run to provide management improvement loans to SMEs. SCB was set for privatization in 2008 as a result of Japan government-affiliated agency reform. Today, government supervision is limited to the minimum and full transfer of shares is expected within 7 years of launching privatisation.

The SCB provides long-term financing for SMEs (around 37 000 as of March 2013)[35] through management improvement loans. They are similar to JFC Marukei loans, i.e., support the efforts to improve enterprises with few management resources and low productivity. However SCB loans differ in collateral request, since the SCB requires collateral, while JFC requests neither collateral, nor guarantor for this type of loans.

1.3. New approach to stimulate venture investment

Support for venture businesses in Japan is provided through different PP FEIs - loans, credit guaranties-, and even awards to increase the interests on business start-ups. The most recent activity is stimulation of investments through the direct link of households-companies, adding to more traditional link households-market-companies. Japan Ministry of Economy, Trade and Industry has announced new measures under the *Abenomics* to encourage Business Angels to participate in the market.

The Japan Revitalization Strategy under the objective of *Creating new businesses* defines the intention to "significantly increase fund supplies for venture businesses. Make the existing angel tax system more user-friendly and review measures that promote investment in venture companies utilizing private company funds"[36]. On that ground, the Industrial Competitive Advantage Law was changed recently, defining venture funds that have certain support abilities for venture businesses. According to new regulations, starting FY2014 private individuals and companies will be eligible for 80 percent of income tax deduction, by equally investing in the qualified venture funds. This incentive is expected to play a crucial role to stimulate wealthy individuals or families brought together under the family funds to become Business Angels investing in venture.

One of such qualified venture funds is the Innovation Network Corporation Japan (INCJ). The Japanese government expects to enhance venture investments of INCJ by attracting Business

[35] The Shoko Chukin Bank web page, http://www.shokochukin.co.jp/english/report/index.html
[36] Japan Revitalisation Strategy – Japan is back-, Cabinet Office, June 14, 2013, Page 15

Angels. The Fund has been established for a 15 years cycle; however by now there is no strict exit strategy. Investments should comply with government guidelines and criteria including ability to generate return, innovations and growth.

II. MONETARY POLICY MEASURES IN JAPAN

In the past few years economies around the world deteriorated rapidly and simultaneously. The pace of economic recovery in emerging economies was faster compared with advanced economies where it remained sluggish. In these circumstances, central banks have been implementing various policy measures, and stimulation of the potential growth through monetary measures has significantly increased (USA, UK[37]). The Bank of Japan measured to bolster the corporate borrowing by implementing *Abenomics*.

Japan has taken major steps to use monetary instruments to boost economical growth. The Growth Strategy of the Prime minister of Japan Mr. Abe aims to shift investments towards more risky instruments, as a way to revive one of the world's largest economies. Strategy addresses not only government activities, but also the behaviour of traditionally oriented society. On January 22, 2013 the Cabinet Office, Ministry of Finance and the Bank of Japan (BoJ) have signed a Joint Statement of the Government and the Bank of Japan on Overcoming deflation and achieving sustainable economic growth. Based on this recognition, the Bank of Japan set the price stability target of two percent achieving this at the earliest possible time, with a time horizon of two years[38]. In the following April, the Bank of Japan has announced the Quantitative and Qualitative monetary easing measures (QQE).

Meanwhile leading path to the QQE measures in Japan is economy facing a critical challenge of overcoming deflation and returning to a sustainable growth path with price stability[39]. In December 2008 the BoJ lowered the uncollateralised overnight call rate to 0.1 percent and has maintained it at that level[40]. However, addressing price and growth rates only by short-term economic fluctuation measures seemed insufficient to reverse the trend. Supplementing the aggressive monetary easing new fund-prevision measures were introduced meanwhile expanded in 2013.

QQE included aggressive provision of money into the economy, by increasing the monetary base at an annual pace of about EUR 450 million (60-70 trillion yen). QQE determines usage of the following transmission channels:

1. Addressing long term interests rates and risk premium of asset prices by: increase of Japanese Government Bonds (JGBs) purchases and their maturity extensions by two times in more than two years; increase of purchase of Exchange traded funds (ETF)

[37] Although, the BoE announced on November 28, 2013 that banks would not be able to claim the cheap funding for new lending to households from Jan. 1, 2014. http://www.theglobeandmail.com/report-on-business/international-business/european-business/bank-of-england-unexpectedly-reins-in-plan-to-boost-mortgage-lending/article15648566/

[38] Kobayakawa S., Bank of Japan and Japan's Economy, presentation materials from the Embassy of Sweden meeting, Tokyo, September 26, 2013

[39] Bank of Japan, Fund-provisioning measure to support strengthening the foundation for economic growth, Review, Monetary affairs department, September 2010, Page 1

[40] Ibid

and Japan-Real estate investments trusts (J-REITs). As a result of this, the BoJ expects to encourage financial institutions to provide new lending to businesses with growth potential.

2. Portfolio rebalancing: purchases of JGBs and ETF / J-REITs is expected to stimulate the market participants (especially pension and security funds) to invest in other assets then JGBs, thus stimulating the economical growth;
3. Drastically changed expectations: following launching the 1st and 2nd channel activities, a rise of the inflation expectations and decline of real rates[41] are expected;

It is stated to continue with the QQE as long as it is necessary to maintain the two percent target in a stable manner[42].

After introducing QQE measures the Bank of Japan is experiencing a pressure from neighbouring countries upon opening the "Pandora's box". Meanwhile the IMF research published on September[43] 2013 notes that central banks' efforts on purchasing government debt - monetary financing of deficit - are less dangerous and more useful as thought in pre-2007 period. At the same time, IMF remarks that the risk of governments pressuring central banks to help limit borrowing costs may rise, if public debt levels remain high when it is time to normalize monetary policy. By the end of 2012 the total public debt level of Japan was 238 percent of the GDP[44], and the central government debt increasing by 1.4 percents in three quarters in 2013[45].

According to the QQE 1st channel directions, and to strengthen the Japan's growth potential, BoJ has established the Loan support umbrella programme.

1.1.1.1. <u>Bank of Japan Loan support programme</u>

The Bank of Japan Loan support programme consists of two facilities: "Growth Foundation Strengthening Facility" and "Stimulating Bank Lending Facility". The concept underlying the two facilities is the supply of long-term funds (up to 4 years) at a low interest rate (in 2013 it is 0.1 percent) in order to stimulate lending in growth areas, and to provide incentive for commercial banks to increase their lending rate. Under the expansionary monetary policy the base target the funding for the Loan programme was set to be increased from EUR 24.8 billion (3.3 trillion yen) in 2012 to EUR 135.0 billion (18 trilling yen) by 2014 (projected)[46].

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[41] Kobayakawa S., Bank of Japan and Japan's Economy, presentation materials from the Embassy of Sweden meeting, Tokyo, September 26, 2013, Slide 8

[42] Fukuda M., Communion strategies and instruments for central bank policy effectiveness, in the 21st Central Banking Seminar, The Bank of Korea, Seoul, Korea, September 30-October 2, 2013, Slide 13 and slide 14

[43] IMF, Reassessing the role and modalities of fiscal policy in advanced economies, policy paper, September 2013, available at http://www.imf.org/external/np/pp/eng/2013/072113.pdf , last viewed on 11.10.2013.

[44] International Monetary Fund, World Economic Outlook Database, April 2013

[45] Japan Ministry of Finances, http://www.mof.go.jp/english/jgbs/reference/gbb/201309.html , last viewed on 11.11.2013.

[46] Kobayakawa S, Bank of Japan and Japan's Economy, presentation in the Embassy of Sweden, Tokyo, September 26, 2013

2.1. Growth Foundation Strengthening Facility (GFSF)

Program was introduced in June 2010 with implementation period till end-March 2014. This facility is seen as the fund-provision measure to support strengthening the foundation for economic growth[47]. It takes a micro approach in lending by endeavouring financial institutions, i.e., commercial banks to lend for SMEs.

On a quarterly basis, financial institutions are invited to submit the "umbrella programme" to BoJ by providing funding for the investees prior the application. Eligible investee is a domestic resident, or a foreign corporation with a business established in Japan, and conducting business in the area identified as contributing to strengthening the foundation of economic growth. BoJ takes a careful in-house examination of the programme, however, non-public, and, if approved, provides low-interest funding to the financial institution to cover market-raised funding. Meanwhile risk of insolvency of the final beneficiary lies with the commercial bank. BoJ does not provide any guidance or instruction on allocation of funds to specific industries or companies unless they meet the growth criteria.

At the end of September 2013, BoJ had provided EUR 30.0 billion (4.0 trillion yen) of the total EUR 41.3 billion (5.5 trillion yen) available for the facility. Loan rates had been at the policy interest rate - 0.1 percent since December 2010. The maximum amount for each eligible borrower (the bank) has been set for EUR 1.1 billion (150 billion yen). Duration of loan is four year maximum, by one year in principle, which can be rolled over up to three times.

Monitoring data show that regional banks use the facility most extensively, since smaller, regional banks are bound to higher interests rate for the market-raised funding. That makes them less competitive with their final loan programme to the local market.

Areas of supported SMEs are varied, but most of the growth loans are being disbursed to medical and nursing care (due to an aging society), followed by environment and energy business (due to power plan policy issues), and investment and overseas business development for the potential expansion in South and East Asia markets, also China.

Meanwhile, it is observable that the BoJ programme is partly competing with the government FILP programme, however regarding the intermediaries (this case the commercial banks) low-interest rate funding have been highly welcomed not only in poorer regions, but also within the major banks being able to provide more attractive loans. Banks are addressing SMEs in a more direct way, serving more precisely to their needs and interests.

2.2. The Stimulating Bank Lending Facility

Program was introduced in December 2012 with implementation plan till end-March 2014. This is a macro-approach, by providing funding to financial institutions to increase their total amount of lending, regardless of area or receiver (individuals included). Lending programmes provide funds up to the amount equivalent to the net increase in total lending, taking Q4 of 2012 as a benchmark. Duration of the issued funding is one, two or three years. This facility

[47] Nishimura K, Deputy governor of the Bank of Japan, Towards Strengthening the Foundation for Economic Growth, efforts of fiscal institutions and the Bank of Japan, speech at Symposium 2010 organised by the Kanto Bureau of Economics, Trade and Industry, December 2010.

has been expected to serve as a strong incentive to increase the loan portfolios of banks, considering that funds are secured at a fixed interest rate of 0.1 percent over a maximum three-year period, which appears to be also the most common period.

Terms of programme do not require any changes to be introduced in the individual credit agreements by benefiting from lower interest rate after approved in the BoJ's programme. However, commercial banks tend to provide good offers initially to increase the total amount of lending, since the BoJ programme only supports net increase as from the benchmark of Q4 2012 data. By the end of September 2013 the BoJ has provided EUR 30.0 billion (4.0 trillion yen) and there is no limit for funds to be provided[48].

Meanwhile for three quarters of 2013 the overall lending in Japan has increased on the average by EUR 49.9 billion (6.7 trillion yen)[49]. Meaning, recent monetary policy measures are well received and used by the market, adding to the potential growth.

III. CHALLENGES AND SUGGESTIONS

The strength of Japan PP FEIs lies within the different spheres of assistance provided simultaneously by fiscal and monetary measures. The Prime Minister Mr. Abe and Banks' of Japan Governor Mr. Kuroda share the view on raising the productivity more swiftly, by providing joint fiscal and monetary measures, as presented in the previous chapter. Lately, several offspring of the new economic success have been observed[50]:

- New job openings have an upward trend;
- Employment is expanding: the first time that employment growth has been in positive territory since 2007.
- The unemployment rate has turned downward sharply since the beginning of 2013, recording 3.8 percent in July, and falling under the three percent level for the first time since 2009;
- Total cash earnings per employee have begun to bottom out as a whole. Cash earning in June-July stood at a positive growth of 2.1 percent on a YoY basis, increasing for the first time in three years.

Some of these trends had been observed also in the pre-2013 period, but these being important signs of moving towards the growth target. In addition, the BoJ's quarterly corporate survey released in July[51] shows positive changes in business-investment plans of manufacturers for FY2013, by reporting increases to 5.5 percent year of year changes compared to two percent stated earlier in March. Rise of this magnitude would be the biggest annual increase since 2007. Martin Schulz, a Fujitsu Research Institute economist has addressed: "Investment is the

[48] Statistics of the Bank of Japan, last viewed 13.11.2013
[49] Statistics of the Bank of Japan, http://www.stat-search.boj.or.jp/ssi/cgi-bin/famecgi2, last viewed 13.11.2013.
[50] Monthly report of resent economic and financial development, September 2013, Bank of Japan, September 9, 2013, Page 12
[51] Japan Tells Firms: Stop Sitting on Cash, The Wall Street Journal, http://online.wsj.com/article/SB10001424127887324260204578582841598689134.html, last viewed on 4.10.2013.

key to Japan's recovery", noting that in the period of 1980-2006 capital investment contributed by about 65 percent to Japan's economic growth[52].

The following section discusses foreseen challenges (A) and provides suggestion (B) to improve the PP FEIs programme, their impact and usage in Japan.

1) Risk of fiscal sustainability
   A. The sizable budget deficit in Japan currently accounts for more than 10 percent and has been accelerating under the current government. Excessive deficit increases not only the risk of financial crises, but also intensifies spending on payments on the public debt. Meanwhile population aged over 65 has hit the 25 percent mark, countering future potential growth in Japan. In addition, during the negotiations of lowering of corporate tax from 38.01 percent to 35.64 percent, political parties gave a condition to the government to keep up with the fund for March 2011 earthquake and tsunami reconstruction, originally set to be in place until end-March 2015[53.] Adding more, the Olympic Games in Tokyo in 2020 will require additional high spending for infrastructure upgrades. Sizeable public spending package of *Abenomics* puts the fiscal consolidation and debt level at a high risk
   B. The issues is whether deficit can be eliminated through economic expansion alone (and if so – at what annual growth rate), or if requires changes in expenditure and tax policy. Meanwhile reduction of deficit is more successful with a higher growth than no growth, being on a positive trend lately, and sustainable characteristics of revenue and expenditure. The Japan government has also increased a consumption tax from 5 percent to 8 percent by April 2014, following to 10 percent in 2015. That will create additional revenue for the state budget, however not expecting to push down the deficit sharply. Continuing with expansionary policy will require additional changes in the budget structure.

2) Female labour participation not necessarily boosting the consumption
   A. The Japanese government's incentive to increase the Female Labour Participation rate has been discussed in the previous chapter. Also, the Global Economic Outlook of Société Générale, published in September 2013[54], has mentioned as a key ingredient for boosting the potential growth rate of Japan over the medium term the *raise in the participation rate of women, which is not that difficult and would require some changes in tax treatment and greater provision of childcare.* However, attracting more women into the workforce and cutting deregulations is something that has been heard in Japan for years. It is clear that increased female participation in the workforce would lead to a rise of income to households. However, it is not that obvious that the household's spending rate would increase as much. For many decades, Japan lacks the transfer of cash earnings into a working capital, but rather chooses savings.

[52] Schulz M., "Abenomics" …and Opportunities for Sustainable Growth, IMF Regional Office for Asia and the Pacific meeting materials, February 7, 2013, available on http://www.imf.org/external/oap/pdf/MartinShultz.pdf, last viewed 13.11.2013.
[53] Mochizuki T., Japan Corporate-Tax Cuts Wins Approval, The Wall Street Journal, October 1, 2013
[54] Takuji A., Kiyoko K., Abenomics is working, Global Economic Outlook, Société Générale, September 2013, Page 37

B. More attention could be directed towards encouraging female entrepreneurship. Creating new businesses requires new facilities, including space, machinery or software, and this increases consumption immediately. Usually, additional skills are also needed on marketing or accounting, by this boosting request for training services. Female support programme under the JFC-Micro accounts only for less than one percent of the total portfolio of loans. This share could be increased.

   i. In addition, addressing simultaneously the problem of child care and the high share of pension dependent population creating fiscal burden, Latvia can share the experience on introducing support measures to elderly relatives becoming nannies, and being partly paid by the state. Japan has already introduced support for non-registered childcare facilities under the Prime Minister's *Womenomics* plan, and involving elderly relatives would not only decrease childcare waiting lists even more, but also increase the employment level in Japan.

3) Overlapping government agencies and policies

A. The problem, for now at least, is not the money, but the overlapping functions and bureaucratic inertia that are taking time and efforts for potential users and resources of the state budget. In addition, there is a certain frustration that monetary policy measures are squeezing out, rather than complementing fiscal policy measures. FILP agency experts believe that businesses in Japan are willing to address firstly commercial banks, leaving the government as the last source of funding. Amounts of the unused annual budgets allocated by the agencies are increasing, and crediting level is not growing rapidly after introducing QQE measures in addition to FILP. On the one hand, it is a sign of a healthier market.

B. In 2008 Japan performed a comprehensive audit on the functions of the government, resulting in changes of the government-affiliated agencies. It is advisable to repeat the exercise in the future due to tendency of the agencies to expand their businesses. In addition, the author has not identified an institution holding an umbrella view of the total fiscal measure established for the PP FEIs, nor combining them with success or failure of monetary policy measures.

4) Regional disparities in business promotion

A. Comparing prefectural income per person[55], Tokyo's index of prefectural wealth indicated 430.64 ten-thousand yen in 2010, while in disaster-stricken north-east areas this index ranks low to 258.58 ten-thousand yen in Fukushima and 245.04 ten-thousand yen in Miyagi. The lowest income per person was observed in Okinawa prefecture (202.47 ten-thousand yen) located three hours flight from Tokyo. The index includes business income as well; therefore it is not directly connected to the wealth of general households, however shows the importance of the corporate activities. Today economic activities in the regions affected by the Great East Japan Earthquake of 2011 are still far from recovery. Mass media report[56] on older villagers not being able to get loans for building new houses. However there are senior support programmes of JFC and Japanese government has provided funding to cover interests on old mortgages. Cities like Rikuzentakata in the Miyagi prefecture have lost nearly 10 percent of

[55] The Statistics Bureau and the Director-General for Policy Planning of Japan, http://stats-japan.com/t/kiji/10714 , last viewed on 9.11.2013.

[56] Financial Times, Special edition of Japan, 31.10.2013.

population and economic activities suffered hardly, but reconstruction after 31 month is moving slowly, jeopardising economic revitalisation.

B. Big disparities between regions were observed already before the Great East Japan Earthquake of 2011. However, favourable assistance provided to the SME has been still predominantly obtained by the richest regions of Japan (Kanto with Tokyo, Koshinetsu and Shizuoka with Mt. Fuji). The Prime Minister's vision of "Japan is back" shares several dimensions addressing regions, including support for provincial SMEs in acquisition and retention of personnel. That measure is expected to motivate new graduates to remain in the regions after graduation. However, young people name big corporation as their first or only choice for work, rather than small, regional enterprises. Therefore, peripheral SMEs and government policies should be directed more towards social and fringe benefits provided to the employees.

In general, the problem for PP FEIs programme implementation in Japan remains businesses "not willing, neither able to borrow". Small companies of the less prosperous regions in parts of Japan are not concerned about their future and therefore do not resume debt-funded investments, while others have "their money to expand in the safest way"[57]. Meanwhile positive trends on the business expectations have been observed lately in Japan. As the upward-trending path witnessed during the first half of 2013 persists, improved market prospects may encourage shifting to external funding and spurring further economic growth.

IV. CONCLUDING REMARK

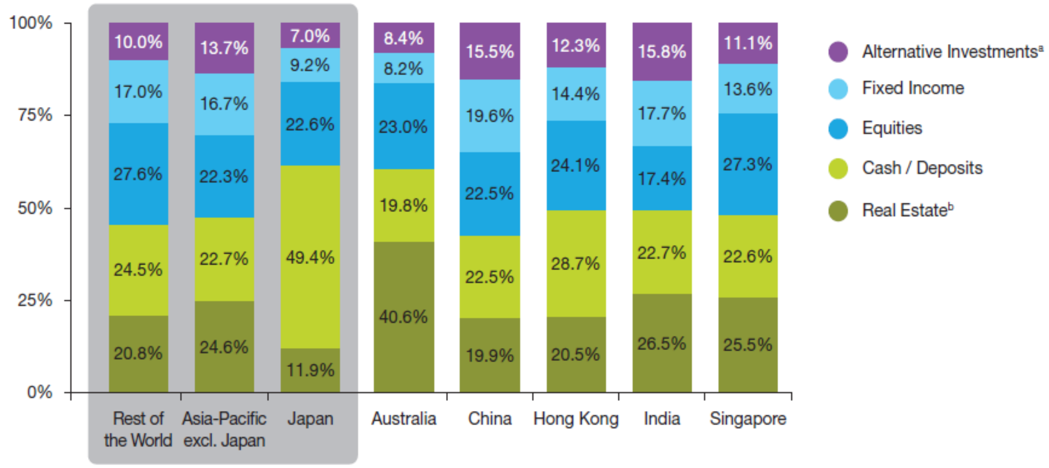
According to the Bank of Japan Monthly report of recent economic and financial developments in October 2013, Japan's economy is expected to continue a moderate recovery, reaching a 3.8 percent GDP growth in 2013. Forecasts are increased from 2.6 percent rate as from the first quarter (estimates)[58]. Also, Japan firms see financial institutions' lending attitude as being on an improving trend, following the significant increase of monetary base and funding costs for commercial entities hovering at low level. Companies' credit demand has been increasing by 2.0-2.5 percent year of year, and production capacity is projected with ongoing improvements[59]. However, the approach of *Abenomics* stimulating PP FEIs and "as long as necessary" Quantitative and Qualitative monetary easing measures can be seen, on the one side, as risky and possibly leading to U.S. Federal Reserve track to do even more. The biggest challenge for the monetary policy measures counteracting stagnation is still to be observed in the medium to long-term. In addition to inflation expectations, the long-term growth is challenged by aging population, limiting the productivity vis-à-vis high fiscal and public debt.

[57] McLannahan B., 'Abenomics' struggles to lift Japan bank's corporate lending; Financial times, Asia; October 4, 2013

[58] Cabinet Office, Government of Japan, Quarterly Estimates of GDP, the 2nd preliminary estimates, published on 09.09.2013.

[59] Monthly report of recent economic and financial developments, Bank of Japan, October 2013

V. APPENDIX



[a] Includes structured products, hedge funds, derivatives, foreign currency, commodities, and private equity

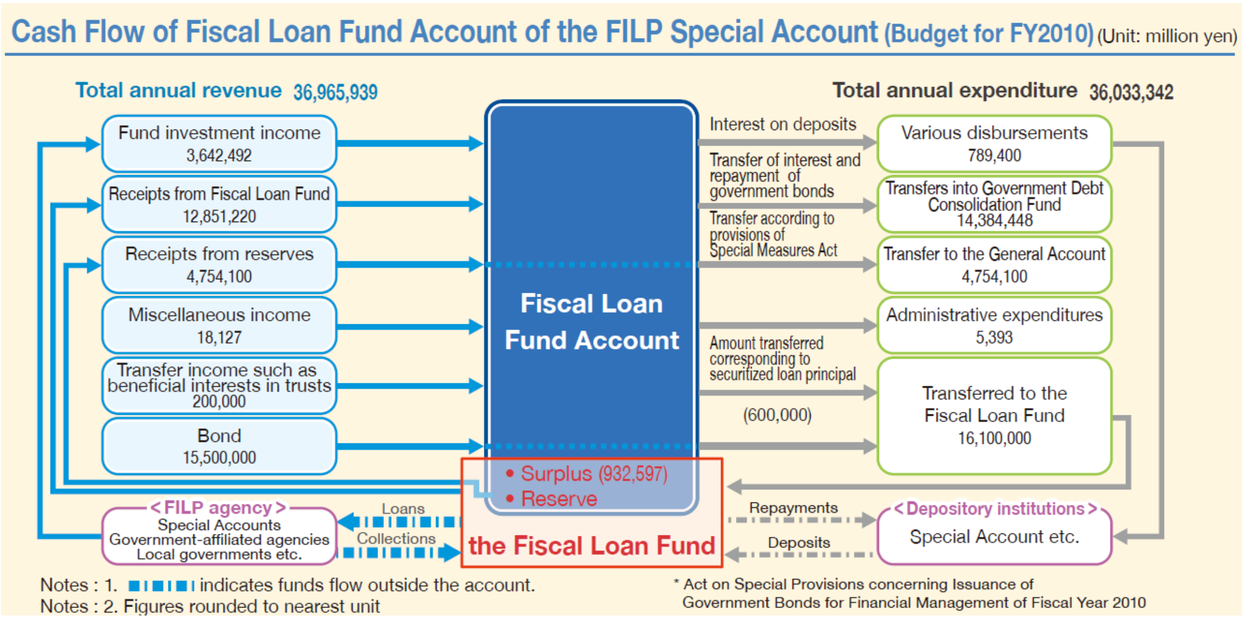
[b] Excludes primary residence

Note: Chart numbers may not add up to 100% due to rounding. Asia-Pacific (excluding Japan) refers to Australia, China, India, Hong Kong, and Singapore. Rest of the World refers to all countries covered in the Global HNW Insights Survey 2013 except those in Asia-Pacific

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2013

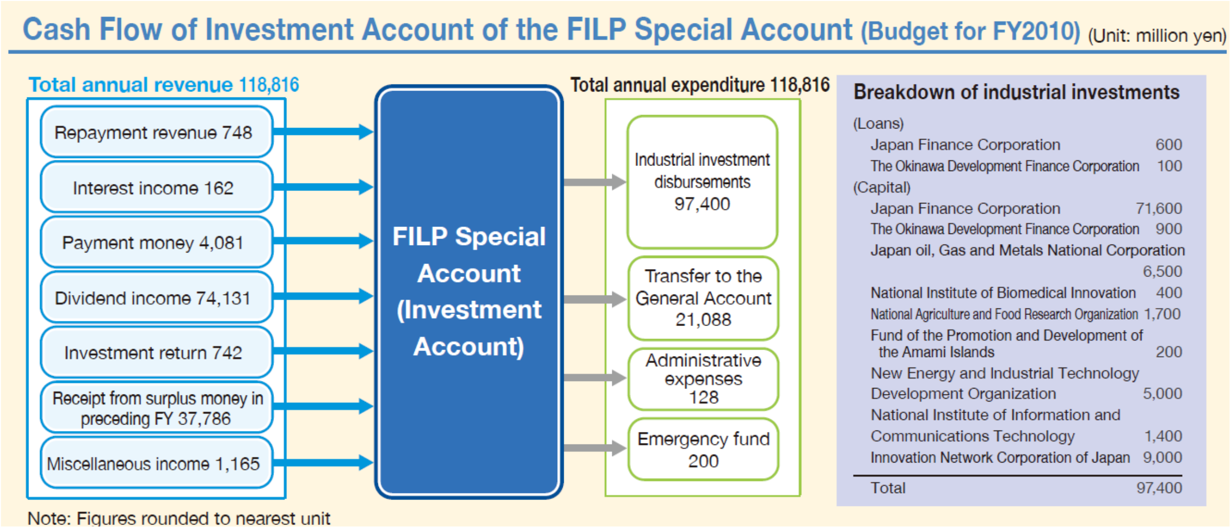
Graph 8. Breakdown of high net worth individuals' Financial Assets in Asia-Pacific, Q1 2013 (percent)

Source: 2013 Asia-Pacific Wealth Report



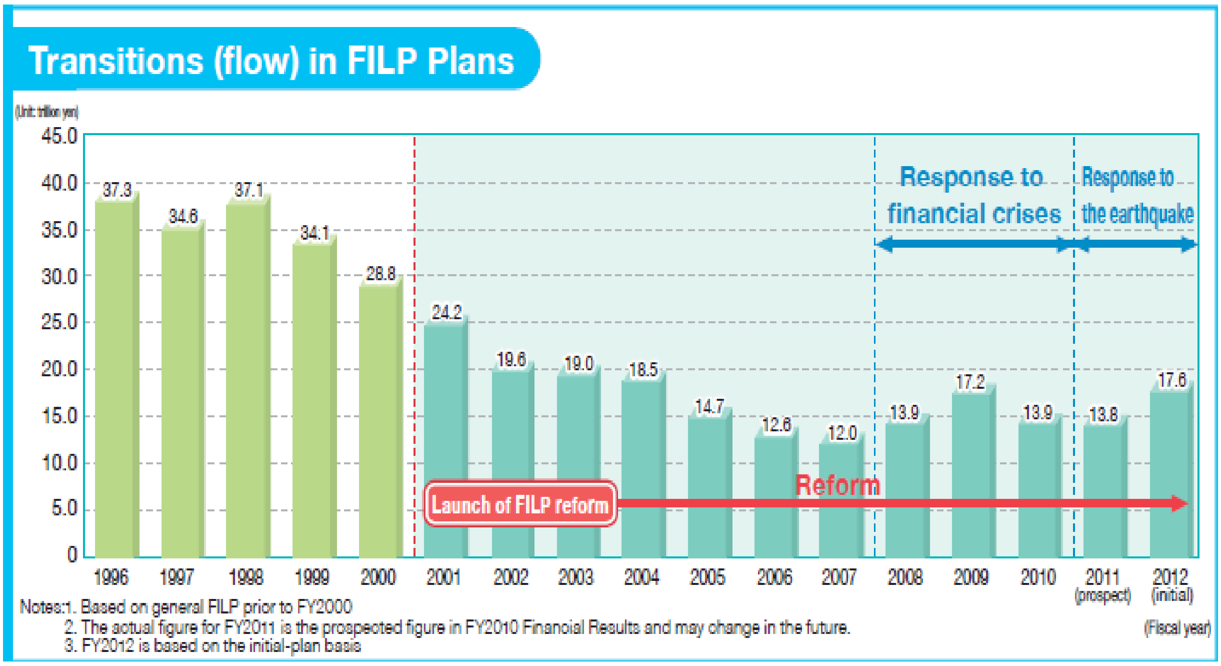
Graph 9. Cash flow of Fiscal Loan Account of the FLIP Special Account (2010).

Source: Japan Ministry of Finance



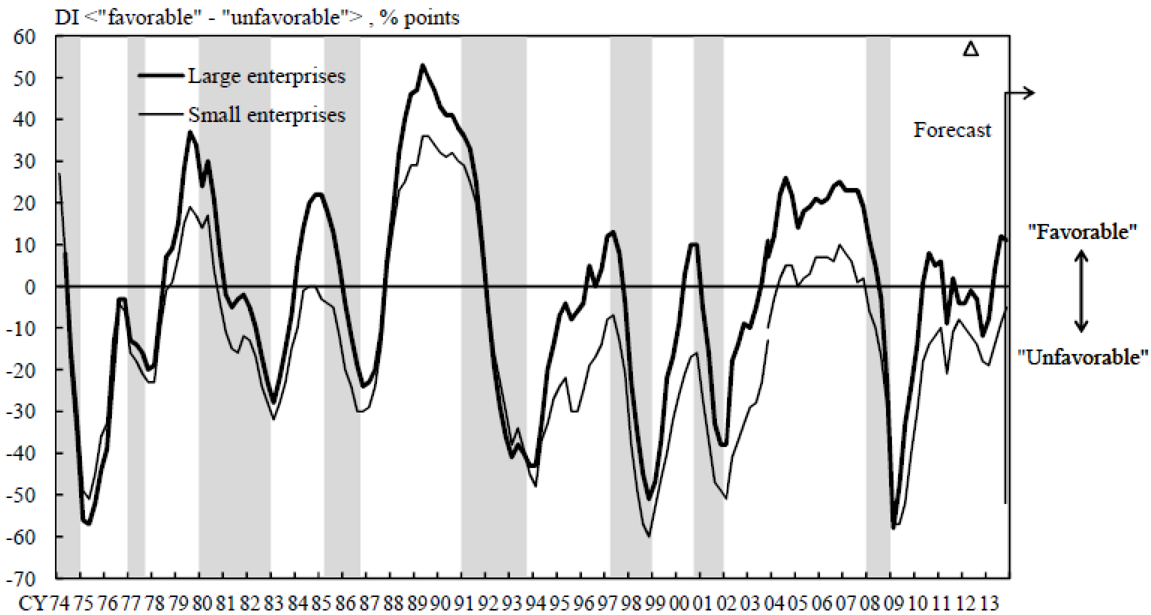
Graph 10. Cash flow of Investment Account of the FLIP Special Account (2010).

Source: Japan Ministry of Finance



Graph 11. Flow and Stock of the FILP.

Source: FILP Report 2012, Japan Ministry of Finance



Graph 12. Assessment of business conditions by manufacturing industry in Japan.
Source: Bank of Japan