

Small and Medium Enterprise Charter

(Approved at the June 18, 2010 Cabinet Meeting)

(Provisional Translation)

The Government has formulated the Small and Medium Enterprise Charter as per the attached Exhibit.

Small and Medium Enterprise Charter

Small and medium enterprises (SMEs) are the driving force of the Japanese economy and central players in society. As forerunners of each elapsed age, SMEs have, at all times, positively and resolutely challenged as pioneers and overcome whatever hardships they have encountered. In the period just after the World War II SMEs satisfied vigorous domestic demand for daily essentials and also developed overseas markets by exports. In the oil crisis of the 1970s, SMEs worked hard on energy saving and contributed the nation lowering its dependence on oil. When the Japanese economy suffered from sharp yen appreciations, SMEs in different local producing areas collaborated with each other and worked to develop businesses in new fields. In the years following the collapse of bubble economy, SMEs have survived by making use of new technologies such as the Internet.

Now Japan is facing economic stagnation originating from the global recession, environmental and energy constraints, a falling birthrate and an aging population. It is essential that SMEs make full use of their power and ability, revitalize the exhausted local economies, and simultaneously open up a new future for Japan by capitalizing on the growth of Asian and other emerging economies.

The Government will become a key supporter of all activities undertaken by SMEs, make concerted efforts to assist SMEs to fully develop their individuality and potential, encourage the SMEs that are self-reliant, support SMEs that are in trouble, and consider all issues from the SME standpoint. The Government will make its best effort to see all SMEs working as glorious entities and contributing to the realization of a stable and vigorous economy and an affluent people's life. For all these purposes, the Government hereby formulates the Small and Medium Enterprise Charter.

1. Basic Philosophy

SMEs support and drive our economy and daily lives. SMEs exercise their originality and ingenuity, improve their technology and skills, provide the majority of employment, and make our everyday lives more pleasant and enjoyable. SMEs are quick to decide and act; they have their favorite areas where they can exert individuality and diverse potential; and their managements are full of entrepreneurship and they perform their responsibilities for protecting not only their families but also employees while carrying out businesses relying on their own resources. SMEs are places where employers and employees work together in a sense of unity, permitting each member's effort to lead to visible achievements.

As central players of society, SMEs make contributions to their communities and the life of their inhabitants, and perform important functions in the succession of traditional skills and culture. Many of small enterprises are family-run and contribute to the stability of their local community.

SMEs are to be regarded as the nation's treasure. On the other hand, limited financial and human resources have kept many SMEs vulnerable to changes originating outside, subjected to unfair trade practices, and exposed to many hardships. This has caused tendencies and values inclined to place a priority on large enterprises. The current turmoil in the global economy triggered by the financial sector, however, has rather revealed the weakness of large enterprises, and then the entire world expects SMEs to play a greater role rather than before. On the domestic front, people feel increasingly anxious about the future because of a falling birthrate, an aging population and stagnant economic society. The examples of key industries capable of eradicating such worries are those of healthcare, welfare, information and communication technology, and environment and energy technology resolving the global warming problem. Those industries, at the same time, have potential of growing markets. The Government will ensure that SMEs fully exert their power in these sectors and then contribute to the realization of an affluent economy, society without anxiety and vibrant lives of people. This is the new model which Japan is willing to

present to the world.

This is the very era that requires us to make efforts to overcome hardships, and we must highly weight value on working with creativeness and ingenuity. SMEs are and will be a major player in such works and efforts.

2. Fundamental Principles

In accordance with the above-stated basic philosophy, the Government will implement SME policies in accordance with the following principles.

(1) Supporting SMEs as a source of economic vitality, to make full use of their capabilities:

The Government will support SMEs to secure management resources including funds, human resources and the ability to expand/manage overseas business, and promote SMEs to make full use of their capabilities. In so doing, the Government will pay enough consideration to small enterprises which often have more serious difficulty in securing management resources. The Government will support the measure of cooperative associations and cross-industry alliances to make greater exertion of SMEs' capabilities.

(2) Encouraging SMEs to start up new businesses:

Start-up enables people to exercise potential and willingness without being bound by the framework of the existing organization, and creates new jobs. The Government will drastically upgrade the existing incentive programs for start-up to further revitalize the economy.

(3) Encouraging the challenges of SMEs to advance into and develop new markets with their creativity and ingenuity:

The Government will create less constrained markets in which SMEs can display their diverse capabilities and management innovation with creativity and ingenuity. The Government will also upgrade policies designed to encourage SMEs to expand overseas business.

(4) Enhancing fairness in markets:

The Government will constantly endeavor to keep markets fair to enable SMEs to do businesses with more powerful companies on substantially equal terms, and not to lose their independency.

(5) Providing the safety net for worry-free business operations of SMEs:

Given that some of SMEs are vulnerable to economic or social change, the Government will have in place the safety nets including financial one and mutual aid system. The Government will make business restart easier and then ensure that corporate revival is more accessible and user-friendly to SMEs.

When the Government will implement policies based on the above principles, it will observe the following rules:

- highly evaluating SMEs that proudly perform businesses in an independent manner or try to tackle social issues such as contributions to the local community;
- paying greater attention to the significance of family business and smoothening business succession;
- listening to opinions of SMEs, considering all sorts of issues from the SME standpoint, and utilizing those opinions when evaluating SME policies;
- promoting more understanding from and cooperation with local business

associations, trade partners with SMEs, financial institutions, educational and research institutions, and SME support personnel;

- strengthening collaboration with local governments; and
- working concertedly across all governmental organizations.

3. Action Guidelines

The Government will proceed with practical activities in line with the following pillars:

(1) Upgrading and making thoroughly the management support from the SME standpoint:

In order to promote technological capability of SMEs, the Government will support their R&D in the manufacturing and other areas and joint research with educational or research institutes and other companies. The Government will maintain and further develop regional industrial clusters that are key to the competitiveness of the economy. The Government will also promote cross-industry alliances and collaboration and use of intellectual property, in order for SMEs to strengthen the business capabilities. For more efficient business management support, the Government will train and reinforce SME support personnel, and upgrade SME support system in collaboration with local business associations.

(2) Supporting SMEs' efforts to develop and secure human resources:

Human resources are keys of SME business management. The Government will provide SMEs with opportunities of human resource development for their employees to improve their capabilities aggressively. The Government will encourage people to find work with attractive SMEs and promote business start-up, and will also improve

education that serves to develop sound working and vocational values at each stage of school education and to help people not to be bound by faith in large enterprises. The Government will also aim to create a high-quality working environment for employees including women, the elderly and the disabled people.

(3) Creating an environment for easier start-up and business advance into new fields:

The Government will remove barriers like financial difficulties for start-up and entry into new businesses. The Government will also endeavor to reform the existing system so that SMEs can aggressively expand business in growth sectors which are expected to shore up the future Japanese economy, such as healthcare, nursing care, agriculture or information and communication technology industries. The Government will aim to create internationally open and the most advanced start-up environment.

(4) Supporting SMEs expanding overseas:

The Government will work in strengthened collaboration with the private sector to assist SMEs to develop overseas markets. The Government will also provide information on trends in overseas markets and international trade fairs, support SMEs activities intended to advance into new markets, and solve troubles related to intellectual property. The Government will push ahead with support for development of human resources workable in overseas activities, or use of foreign staff, and then realize their true internationalization.

(5) Enhancing fairness in markets:

The Government will strictly enforce the laws designed to protect the legitimate profits of SMEs, prevent large enterprises from delaying

payment or reducing the amount of payment to SMEs, and remove all actions by large enterprises that demand for excessive quality which inflicts unreasonable costs on SMEs. Central and local governments will also consider more procurement from SMEs and endeavor to ensure that SMEs will be provided with greater opportunities for government contracts.

(6) Facilitating SME financing:

The Government will enrich policy-based finance designed to protect SMEs against recessions or natural disasters, and to encourage management innovation and R&D. The Government will also facilitate the flow of funds to the SMEs which try to start up new businesses and to change or expand businesses. When providing funds to SMEs, the Government will promote financial institutions to place importance on SMEs' their business capabilities and the aptitude of managers, including intellectual assets, and then reduce SMEs' loans dependence on real estate collateral or guarantors. For this purpose, the Government will establish an accounting system that is in line with actual conditions and encourage SMEs to have clearer management data and available information, to improve their manager's capability of explaining their own businesses and to strengthen their fundraising capabilities.

(7) Creating a system to boost SMEs contributions to communities and society:

The Government will provide wide support to SMEs' activities aimed at tackling issues suffered by local communities, such as aging population, rural depopulation, and environmental problems. Those activities include performed jointly with shopping streets and local business associations. The Government will support SMEs' participation in activities that strengthen relationships within local communities, such as local festivals and the projects designed for local economic development. The Government will also back up SMEs' activities for the succession of

skilled expertise and traditional techniques.

(8) Implementing SME policies comprehensively taking into consideration their impacts on SMEs, and reflecting their voices in policy evaluation:

Inter-ministerial collaboration will enhance the effectiveness of measures to support SMEs efforts for starting up or changing/expanding businesses. Small and Medium Enterprise Agency and all other ministries and agencies concerned will work in strengthened unity to develop and implement SME policies in relation to industry, employment, social security, education, finance, public finance, and the taxation system. In so doing the Government will listen to SME voices across the country in cooperation with local business associations and reflect them in reviewing the effects of the policies implemented.

Conclusion

The world economy is seeing its growth center moving toward emerging countries in Asia and other developing regions from the developed, and also experiencing accelerated structural changes that cause information and financial activities spreading instantaneously. In Japan where we are facing a falling birthrate and an aging population, it should become more important and vital than ever to have each and every citizen develop and make full use of his/her capacities. Unless we change our society so that it may encourage people to redouble their efforts to start up businesses, to develop new businesses, and to make full use of creativeness and ingenuity, we will fall into a grave situation in the future. The Government hereby declares that it greatly expects leadership by SMEs in implementing change, and that it strengthens its determination to endeavor to the realization of an economic society that enables SMEs to resolutely challenge.